Hewitt ennisknupp
An Aon Company

Statement of Pension Investment Policy and Objectives
Tucson Supplemental Retirement System

May 2012

About This Material

This **Statement of Pension Investment Policy and Objectives** updates previous Statements to reflect change in the manager structure.

This Statement is the result of discussions between Tucson Supplemental Retirement System (TSRS) and Hewitt EnnisKnupp (HEK). The purpose of this Statement is to assist the TSRS Board and the investment managers of the pension fund in effectively supervising and managing the assets of the TSRS pension fund (Fund). This Statement:

- Discusses risk posture for the pension fund assets;
- Specifies an asset allocation policy;
- Outlines investment guidelines for investment managers;
- Recommends criteria for evaluating the performance of the investment managers; and
- Proposes specific responsibilities for the Board, the investment managers, and the investment consultant.

HEK suggests that the proposed investment policies described herein should be considered dynamic in nature by TSRS. These policies should reflect the pension plan's current status and the Board's current philosophy regarding investment of the assets. The policies should be reviewed and possibly revised from time to time to ensure they adequately reflect any changes related to TSRS, its pension fund, and the capital markets.

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Risk Posture

Introduction

Investment theory and historical capital market return data suggest that, over long periods of time, there is a relationship between the level of risk (i.e., volatility of investment returns) assumed and the level of return that can be expected in an investment program. In general, higher risk is associated with higher expected returns. The same relationship holds true between the expected magnitude and volatility of pension costs and funded status; i.e., higher volatility typically is associated with lower expected pension costs and better funded status.

Given this relationship between risk and return, a fundamental step in developing investment policies for the TSRS is the determination of the pension fund's risk posture. The TSRS has examined both the pension fund's risk tolerance, i.e., the **ability** of TSRS to take risk, and its risk preference, i.e., the **willingness** of the Board to take risk in the pension investment program.

Risk Tolerance

The Board has examined three important areas that affect its overall pension risk tolerance:

- Demographic characteristics;
- Actuarial characteristics; and
- Funded status.

Risk Preference

The TSRS Board members' risk preferences range from average to slightly above average. Some members recognize the goal of achieving a high rate of return on assets in order to minimize the ultimate cost of the plan and build a cushion for future benefit enhancements (e.g., COL adjustments). Other members tempered this goal with the continuing need to protect the value of plan assets.

Overall Risk Posture

Based on its assessment of its demographics, actuarial/funding situation, and risk preference, the TSRS Board believes that its overall risk posture is consistent with the asset allocation described in the next section.

Asset Allocation Policy

Asset Allocation Policy

Over the long term, asset allocation policy will be the primary determinant of the returns generated by the TSRS pension fund and the associated volatility of returns. In particular, the level of equity exposure is the key element within the TSRS pension investment policies.

In developing asset allocation policies for its pension fund, the Board examined asset and liability projections to evaluate possible results over the next ten years. These projections examined the risk/return tradeoffs of alternative asset classes, as well as alternative levels of equity exposure. Through incorporating the results of these projections with its risk posture, as well as considering typical practices and practical investment issues, the Board has developed the following asset mix guidelines:

	Percent of Total Pension Fund		
	Minimum	**Target**	**Maximum**
Equities:			
Large Capitalization	31%	36%	41%
Small/Mid Capitalization	6%	10%	14%
International	13%	15%	17%
Equities	**56%**	**61%**	**66%**
Fixed Income	21%	26%	31%
Real Estate	6%	8%	10%
Infrastructure	3%	5%	7%

TSRS will review its asset mix at least quarterly and rebalance its portfolio mix at any time that a primary asset class (i.e., equities, fixed-income, real estate, and infrastructure); secondary asset class (i.e., domestic equities, international equities, domestic fixed income, and international fixed income); a portfolio style; or manager reaches the minimum or maximum allocation specified above. In rebalancing, TSRS will consider the market environment at the time and allocate assets back to the target mix over a reasonable period of time. Separate target ranges are also set for each investment manager and are defined in the next section.

Investment Manager Structure

Investment Manager Structure

To implement its asset allocation policies, the Board will select appropriate investment managers. The current manager structure for the pension plan is shown below.

		Percent of Total Pension Fund		
Portfolio Style	**Investment Manager**	**Minimum**	**Target**	**Maximum**
U.S. Equity:				
Large Cap Equity (Index)	AllianceBernstein	8%	11%	14%
Large Cap Equity (Enhanced Index)	PIMCO	3%	5%	7%
Large Cap Growth Equity (Active)	T. Rowe Price	8%	10%	12%
Large Cap Value Equity (Index)	BlackRock	8%	10%	12%
Mid Cap Equity (Active)	Champlain Investment Partners	3%	5%	7%
Small Cap Equity (Active)	Pyramis Global Advisors	3%	5%	7%
International Equity:				
- Core Style (Active)	Aberdeen Asset Management	5.5%	7.5%	9.5%
- Value Style (Active)	Causeway Capital Management	5.5%	7.5%	9.5%
U.S. Fixed Income:				
U.S. Investment Grade Fixed Income (Index)	BlackRock	8%	10%	12%
Non-Government Fixed Income (Active)	PIMCO	13%	16%	19%
Real Estate:				
Open-end Core Properties Fund	J.P. Morgan Asset Management	3%	5%	7%
Open-end Value Added Real Estate	J.P. Morgan Asset Management	0%	1.5%	3%
Closed-end Value Added Real Estate	LaSalle Investment Management	0%	1.5%	3%
Infrastructure:				
North American Infrastructure	SteelRiver Infrastructure Partners	1.5%	2.5%	3.5%
European Infrastructure	Macquarie Investment Management	1.5%	2.5%	3.5%

The Board will review its investment managers on a regular basis to monitor their appropriateness for the TSRS pension plan. From time to time, the Board may change the allocation to managers or the organization responsible for the portfolios.

Investment Manager Guidelines

Investment Manager Guidelines

The TSRS investment manager(s) are expected to adhere to the following investment guidelines unless otherwise noted in an addendum to this document or in a separate written agreement between the TSRS and the manager. General guidelines below apply to all investment managers; fund segment guidelines apply to each investment manager retained to manage a portfolio within a specific fund segment.

An investment manager should contact TSRS when it believes that deviation from the guidelines would be in the best interest of the pension fund. TSRS will consider the manager's request based upon the facts and circumstances at the time of the request. Approval must be obtained in writing before an investment manager deviates from the guidelines.

The assets of the pension fund may be invested in separately-managed accounts or in commingled funds depending upon administrative and cost considerations. Commingled funds are subject to the diversification and quality guidelines of the fund manager. TSRS will attempt to utilize commingled funds with portfolio policies and guidelines that are generally consistent with pension fund objectives and with the guidelines that follow.

General Guidelines

The following broad guidelines reflect the parameters under which the TSRS Board desires to achieve its objectives:

- The Investment Manager shall be given full discretion to manage the assets under its supervision subject to these Investment Guidelines and the Laws of the State of Arizona.

- Investments will be of a prudent nature and consistent with the best investment practices.

Prohibited Transactions

The following transactions are prohibited unless specifically authorized by the TSRS in a separate written agreement:

- Borrowing of money.

- Purchase of securities on margin or short sales unless used for the purpose of risk control.

- Pledging, mortgaging, or hypothecating of any securities except for loans of securities that are fully collateralized.

- Purchase of the securities of the investment managers, its parent, or its affiliates.

- Purchase or sale of futures or options for speculation or leverage.

Restricted Transactions

Investment managers must seek written approval from the TSRS before engaging in the following types of transactions:

- Purchase or sale of commodities, commodity contracts, or illiquid interests in real estate or mortgages.

- Purchase of illiquid securities.

- Use of various futures and options strategies for hedging or for taking limited risks with a portion of the portfolio's assets.

Securities Trading
In making investment decisions the investment manager(s) should concentrate on total fund returns. The emphasis for securities trading shall be on "best execution"; that is, the highest proceeds to the fund at the lowest cost, net of all transaction expenses.

Managers should report brokerage allocation to TSRS as part of the routine reporting process. Managers also should inform TSRS annually regarding any "soft dollar" arrangements between the manager and the brokers and describe the services that are purchased with the soft dollars, if any, generated by pension fund assets. The managers also should regularly inform the TSRS of the turnover within their portfolio and be prepared to document the rationale for any significant increases in portfolio turnover.

Securities Lending
The TSRS may enter into securities lending agreements with the pension fund's custodian bank. The securities lending agreements should include credit approval, collateral management investment policies, and indemnification provisions that minimize the risk of principal loss.

Proxy Voting
The investment manager(s) are responsible for their portfolios and for making their own assessment of the issues to be voted upon. Managers are expected to vote all proxies received so as to enhance the economic interest of the pension plan. In addition, the managers should maintain records as to the voting of proxies so that the TSRS can monitor both the general voting procedures and the specific actions taken. Each manager should submit quarterly reports to the TSRS that addresses proxy voting activity during the prior quarter. In addition, the Board may direct how proxies should be voted on certain issues.

Diversification
The investment manager(s) are responsible for achieving a level of diversification in their portfolio that is consistent with their investment approach and their role in the TSRS's overall investment structure. Managers may be retained for portfolios that concentrate in specific market segments. General diversification guidelines may be waived (upon request) for these "special purpose" portfolios.

Fund Segment Guidelines

U.S. Equity Manager Guidelines

This segment may include common and preferred stock, convertible securities, warrants, and cash equivalent securities.

- Holdings in any one economic sector (e.g., energy) should not exceed more than 4 times the weight of the sector in the benchmark index or 50% of the portfolio's market value, whichever is lower. If a sector has a greater than 50% weight in the index, the maximum exposure to that sector in the portfolio may be as high as its weight in the index. This restriction notwithstanding, the manager may invest up to 10% of the portfolio in a single sector.

- It is expected that the portfolio will be invested primarily in stocks of companies headquartered in the United States. However, the manager also has discretion to invest up to 15% of the portfolio in securities of foreign issuers listed on a major U.S. exchange or traded on a major U.S. securities market (including ADRs and ADSs). In addition, the manager may invest in other depository receipts and shares as well as non-dollar denominated securities of foreign issuers traded on non-U.S. exchanges. Restriction of depository receipts does not apply to dual listed stocks.

- Private placements and other restricted securities (including Rule 144A eligible securities) are eligible for purchase up to 10% of the market value for the total portfolio.

- Equity managers are expected to run fully invested portfolios. In most situations, residual or transitional cash should be no more than 5% of the portfolio market value. If, in a manager's judgment, a higher level of cash is warranted for defensive purposes, the 5% limit may be exceeded, provided prior notification has been given to an authorized representative of the Board. Regardless of the level of cash in the portfolio, the manager's performance will be measured on the entire portfolio, not on only the equity portion. Non-equity assets will be high-quality cash equivalent securities maturing within one year.

- Larger capitalization portfolios should have a weighted average market capitalization in excess of the weighted average market capitalization of the Russell Midcap Index. Middle capitalization portfolio should have a weighted average market value similar to that of the Russell Midcap Index. Smaller capitalization portfolios should have a weighted average market capitalization less than the weighted average market capitalization of the Russell Midcap Index

Non-U.S. Equity Manager Guidelines

This segment may be invested in common and preferred stocks, convertibles, and warrants of companies headquartered outside of the United States.

- Issues held in the portfolio should be traded on a recognized national stock exchange with adequate liquidity, trading volume, regulations, and breadth of securities. Investments in any single country market should not exceed more than 4 times the weight of the country in the benchmark index or 50% of portfolio assets, whichever is lower. If a country has a greater than 50% weight in the index, the maximum exposure to that country in the portfolio may be as high as its weight in the index.

- No more than 35% of each manager's portfolio should be invested in "emerging markets" (i.e., markets that are not included in the Morgan Stanley Capital International Europe, Australia, and Far East index).

- ADRs and other depository receipts are permitted in the portfolio.

- Private placements and other restricted securities (including Rule 144A eligible securities) are eligible for purchase up to 10% of the market value of the total portfolio.

- The sector, marketability, and cash equivalent guidelines defined above for the U.S. equity segment also apply to the non-U.S. equity segment.

- The investment manager(s) is/are permitted to enter into hedging strategies, including cross-currency hedges, using forward currency exchange contracts and currency options. Derivatives should not be used for the purpose of speculation or for leveraging the portfolio.

U.S. Investment Grade Fixed-Income Manager Guidelines
Permissible investments include marketable government, corporate, and mortgage-backed bonds and cash equivalent securities.

- For passive investment strategies, it is expected that the portfolio will be managed to replicate the performance of the underlying index. Therefore, overall characteristics of the portfolio should be similar to that of the index (including, but not limited to quality, sector, and duration characteristics).

Diversified Fixed Income Manager Guidelines
The manager will be allowed to invest in those securities listed in Appendix A of this document.

- The manager should adhere to the following sector limitations as they relate to the total portfolio:

Sector	Ranges
Mortgage	10% - 40%
Credit (Inv. Grade)	10% - 40%
High Yield	10% - 40%
Emerging Markets	10% - 40%
U.S. Treasury	0% - 30%
Non-US Dollar Denominated Fixed Income	0% - 30%
Foreign Currency Exposure	0% - 15%
Non-144A/Non-Reg S Private Placements	0% - 10%
Convertible Securities	0% - 5%

- Duration of the total portfolio should be within 30% of the custom benchmark which is defined as 25% Barclays Mortgage, 25% Barclays Credit, 25% Barclays High Yield, 25% JPM EMBI Global.

- The maximum position in a single issuer (excluding obligations of U.S. Government and its Agencies) should not exceed 5% of the portfolio’s assets at current market value.

- The portfolio should maintain an average quality of at least “BB+”.

- Money Market instruments must be rated in one of the two highest categories by a nationally recognized rating agency.

- The minimum rating for individual issues should be CCC (based on market value) as rated by Moody’s, S&P, or Fitch. Should an issue be downgraded below the minimum, the manager will determine the appropriate action to be taken.

Alternative Asset Managers

The Board may employ funds, funds of funds, exchange traded funds, mutual funds or separate account management to pursue investments in “alternative assets” for the purpose of diversifying the market exposure of the Fund, to reduce correlations to equity and fixed income investments, and/or to enhance returns. These might include, without limitation, managers or partnerships investing in leveraged buyouts, distressed debt, venture capital, natural resources, hedge funds, private real estate, infrastructure, or other asset classes/strategies. These investments will not generally fall within the guidelines established for the more traditional asset classes that make up the majority of the Fund’s investments.

The Board shall consider certain criteria, including, but not limited to, the following in evaluating alternative asset managers:

- Tenure and track record of management as a team;
- Expertise in targeted areas of investment;
- Diversification relative to other investments;
- Use of Leverage;
- Liquidity of investments;
- General Partner investment, fees and potential conflicts of interest; and
- Unrelated Business Income Tax.

Investment Performance Objectives

Investment Performance Objectives

To facilitate ongoing review and evaluation of the TSRS Pension Fund, the Board believes that specific investment performance objectives are appropriate. These performance objectives are designed to provide a quantitative basis to judge the effectiveness of the investment program and its investment managers.

Total Pension Fund Performance Objectives[1]

The TSRS Pension Fund's return will be, in part, a function of the capital market environment in which the plan's investment managers operate. Therefore, regardless of whether or not the market environment permits the achievement of substantial real returns, the TSRS expects any active investment managers that it retains to produce results that are above average relative to other actively-managed funds and relative to passive alternatives. Investment managers should cover the fees paid and provide a return increment that justifies the risk assumed in active management.

On a rolling three-year basis, the annualized total return of the portfolio should exceed the annualized total return of the following custom index:

Index	Weight
S&P 500 Stock Index	36%
Russell 2500 Index	10%
MSCI All Country World Index ex-U.S. Free	15%
Barclays Aggregate Bond Index	26%
NCREIF ODCE Index	8%
CPI + 4%	5%

Individual Managers Performance Objectives

Over rolling three years, the annualized total return earned by an actively managed portfolio should place the account in a competitive ranking (i.e., top 40%) relative to a peer group of managers. In addition, performance of the passive managers should track the performance of the relevant market index while the performance of active managers should exceed the performance of the relevant market index. The benchmarks below represent a broad list of indexes. It should be noted that not all benchmarks may be applicable to the investment program at a given point in time.

[1] The investment objectives defined herein assume that performance comparisons will be based on a before-fee analysis, unless otherwise indicated.

Investment Allocation		Benchmark Indexes
U.S. Equity		
Large Cap	Large Cap Core	S&P 500 Index, Russell 1000 Index
	Large Cap Styles	Russell 1000 Growth and Value Indexes
Mid Cap	Mid Cap Core	Russell Mid Cap Index
	Mid Cap Styles	Russell Mid Cap Growth and Value Indexes
Small Cap	Small Cap Core	Russell 2000 Index
	Small Cap Styles	Russell 2000 Growth and Value Indexes
International Equity		
Developed		MSCI EAFE Index
All Country ex-U.S.		MSCI All Country World Index ex-U.S. Index
Emerging Markets		MSCI EM Index
Fixed Income		
U.S. Investment Grade		Barclays Aggregate Bond Index
Diversified		Custom benchmark: 25% Barclays Mortgage Index 25% Barclays Credit Index 25% Barclays High Yield Index 25% JP Morgan EMBI Global Index
Real Estate[1]		
Private Real Estate		NCREIF ODCE Index
Infrastructure[1]		
Private Infrastructure		CPI + 4%

[1] The Board recognizes that benchmarks for private investments are imperfect, particularly for illiquid investments. The Board will evaluate performance of each strategy, taking into consideration the market environment at the time of investment. The Board may also consider the performance of traditional equity and fixed income benchmarks as part of the evaluation process.

Evaluation and Review Process

Evaluation and Review Process

On a timely basis, the TSRS will review actual investment results achieved by its manager(s) (with a perspective toward a three- to five-year time horizon) to determine whether:

- The investment manager(s) adhered to the investment philosophy and policy guidelines set forth herein;
- The investment manager(s) performed in a manner consistent with their stated investment approach; and
- The investment manager(s) performed satisfactorily when compared with the TSRS objectives (relative to peer groups and indices).

Among the events that the TSRS will examine closely in its review of the investment manager(s) are:

- Performance which is below that of relative as well as absolute objectives over a three- to five-year period;
- Performance which is substantially below that of relative objectives over a shorter period of time (e.g., one year);
- A change in the portfolio manager assigned to TSRS;
- The departure of one or more key investment professionals;
- Violation of an investment guideline; and
- A change in the ownership or control of the investment management organization.

In addition to reviewing each investment manager's results, the TSRS will reevaluate, from time to time, its progress in achieving the total fund and fund segment objectives presented herein. The periodic reevaluation also will involve an evaluation of the continued appropriateness of: (1) the Pension Plan manager structure (i.e., number and types of managers); (2) the allocation of assets among the managers; and (3) the investment objectives for the portfolio.

An investment manager will be placed on the watch list if it meets one of the following criteria:

Quantitative Watch List Factors

- 1 year performance (measured on a quarterly basis)
  - Fixed Income and Open-End Real Estate Portfolios:
    - Underperform benchmark by 2.0% and bottom 25% in peer group for two consecutive quarters
  - Passively Managed Portfolios:
    - Underperform benchmark by 0.5%
  - Actively Managed Equity Portfolios:
    - Underperform benchmark by 5.0% and bottom 25% in peer group for two consecutive quarters

- 3 year performance (annualized, measured on rolling quarterly basis)
  - Actively Managed Portfolios:
    - Underperform benchmark and bottom 60% in peer group for two consecutive quarters

- Passively Managed Portfolios:
  - Underperform benchmark by 0.3%

Qualitative Watch List Factors

- A change in the portfolio manager assigned to TSRS;

- The departure of one or more key investment professionals;

- Violation of an investment guideline;

- A change in the ownership or control of the investment management organization; or

- Regulatory investigation (e.g., SEC, Attorney General, etc.), particularly an investigation involving senior members of the firm or product team.

Any investment manager that is on watch list will be reviewed at subsequent Board meetings to determine why it is not meeting the stated benchmarks and if further action is warranted. An investment manager can be removed from watch list for one of three reasons:

- The investment performance changes so that it meets or exceeds its investment benchmarks.

- The Board understands why the investment manager is not meeting or exceeding its stated benchmark and is comfortable that the fund is still meeting the objectives for which it was chosen.

- The qualitative watch list factor has been rectified or the Board understands and feels comfortable with the investment manager's action to address the violation.

- The Board replaces the fund.

Responsibilities of the TSRS Board

Responsibilities of the TSRS Board

The TSRS Board is responsible for overseeing the investment of the Board's defined benefit pension plan assets. Primary recommended responsibilities of the Board with respect to the pension investment program include:

- Recommending and reviewing pension investment policies and objectives;
- Selecting or removing investment managers, custodians, performance evaluators, and other consultants;
- Reallocating the assets among managers if the overall asset allocation policy limits have been exceeded, within the investment policies stated herein.

The TSRS Board will discharge its duties to the plan solely in the interest of the plan participants and beneficiaries for the exclusive purpose of providing benefits.

Responsibilities of the Investment Managers

Responsibilities of the Investment Managers

The duties and responsibilities of the investment manager(s) retained by the TSRS include:

- Investing the assets of the TSRS pension fund with the care, skill, prudence, and diligence that a prudent professional investment manager, familiar with such matters and acting in like capacity, would use in the investment of such assets.

- Adhering to the investment policies and guidelines prescribed by TSRS.

- Initiating written communication with TSRS whenever the investment manager believes the guidelines should be changed. TSRS recognizes that such changes may be necessary from time to time given the dynamic nature of capital markets.

- Informing TSRS regarding all significant matters pertaining to the investment of the fund assets. These matters include:

  - Substantive changes in investment strategy or portfolio structure; and

  - Significant changes in the ownership, affiliations, organizational structure, financial condition, and professional staffing of the investment management organization.

- Submitting at least quarterly reports describing portfolio holdings, performance results, and transactions activities (including brokers used, commissions directed to each broker, and “soft Dollars” generated.)

- Voting all proxies after careful assessment of the issues involved. The manager(s) should pay particular attention to items that may reduce the economic value of stockholders’ rights to ownership and thereby having an adverse effect on the performance of the portfolio.

- Informing TSRS of the “soft-dollar” arrangements between the manager and the brokers and describing the services that are purchased with the “soft dollars” generated by the TSRS pension fund assets. This information should be updated n a periodic basis, especially when significant changes occur in the “soft-dollar” relationships.

- The manager also should regularly inform TSRS of the turnover within the portfolio and be prepared to document rationale for significant changes in portfolio turnover.

- Meeting with the TSRS Board or staff on a regular basis—generally at least once annually.

Responsibility of the Investment Consultant

Responsibility of the Investment Consultant

TSRS intends to employ a third-party organization to assist it in overseeing the pension investment program. The responsibilities of the investment consultant include assistance or services in the following areas:

- Assist TSRS in the development and review of asset allocation policies, including periodic reexamination of asset mix strategy;
- Assist TSRS in the review of new asset classes and their potential use within the pension investment program;
- Assist TSRS in the development and review of investment manager structure, including the number of managers and their roles in the portfolio;
- Assist TSRS in the development and review of the “Statement of Pension Investment Policies and Objectives”;
- Ongoing performance evaluation;
- Assist TSRS in the review of the plan’s investment managers, as requested;
- Assist TSRS in the periodic review of asset allocation and potential portfolio rebalancing; and
- Miscellaneous assistance on special projects and investment education.

In its role, the investment consultant is expected to provide the following service elements:

- Periodic meetings to review results and the investment program;
- Materials related to the discussion of asset allocation, investment manager structure, policies and objectives, and other topics of relevance to the investment program; and
- Availability to address topics of interest related to the pension investment program.

The investment consultant’s role is to serve as an advisor to TSRS, with all investment discretion retained by TSRS.

Appendix A: Permissible Investments for PIMCO

Permissible Investments for PIMCO

The Manager will have discretion to invest in a broad array of public and private asset classes, instruments and investment vehicles including but not limited to:

- Money Market Instruments
- U.S. Treasury and Agency Notes and Bonds
- Municipal Bonds
- Corporate Securities
- Private Placements (Including 144As)
- Event-linked Bonds
- Bank Loans
- Yankee and Euro Bonds
- Mortgage-Backed Securities (including CMOs and REMICs)
- Mortgage Derivatives
- Asset-Backed Securities
- Preferred Stock
- Convertible Securities
- Non-U.S. Dollar-denominated Securities
- Emerging Market Securities
- Non-Leveraged Structure Notes
- Futures and Forwards (Including Exchange Traded Swaps Futures)
- Currencies
- Options, Caps and Floors
- Swaps
- Credit Default Swaps (Long and Short)
- PIMCO Pooled Funds

Appendix B: Glossary of Terms

Glossary of Terms

144A Securities - Private placement debt or equity securities sold to qualified institutional investors, who have at least $100 million in assets. These securities do not have to be registered with the SEC if the issuing company has no more than 499 stockholders.

Active Management - An investment strategy that seeks returns in excess of a specified benchmark. The belief is that it is possible to profit from the stock market through any number of strategies to identify mispriced securities and own a basket of securities that is different in weight and/or composition than the underlying benchmark.

Alpha - The incremental return of a manager due to non-market factors. This risk-adjusted factor takes into account both the performance of the market as a whole and the volatility of the manager. A positive alpha implies a manager has produced returns above expected for the given level of risk of the portfolio.

American Depositary Receipt (ADR) - Receipt for the shares of a foreign-based corporation held in the vault of a U.S. bank and entitling the shareholder to all dividends and capital gains. Also called American Depositary Share.

Asset Allocation - The process of apportioning a portfolio among major asset categories such as fixed income, stocks, and cash equivalents.

Asset-Backed Security - A security that is backed by installment loans or leases or by revolving lines of credit. Collateralized by assets that are not mortgage loans. The most common types of asset-backed securities are those backed by automobile loans, credit card receivables, and home equity loans.

Barclays Aggregate Bond Index - Broadly diversified investment-grade U.S. bond index made up of the Barclays Capital Government/Credit, Mortgage-Backed and Asset-Backed Securities Indices. All issues have at least one year to maturity and must have an outstanding par value of $100 million to be included. All returns are market value-weighted inclusive of accrued interest.

Barclays Credit Index - Index of investment grade corporate bonds, including dollar-denominated debt issued in the U.S. by foreign corporations (Yankees).

Barclays Government/Credit Bond Index - Index of investment grade government and corporate bonds. All public U.S. Treasury obligations (except foreign-targeted issues), public agency issues and corporate debt guaranteed by the U.S. government are included. In addition, the index contains all publicly issued nonconvertible SEC-registered corporate debt, including dollar-denominated debt issued in the U.S. by foreign corporations (Yankees).

Barclays High Yield Index - Index of non-investment grade corporate debt issued by U.S. and non-U.S. companies that register the bonds with the SEC.

Barclays Mortgage Index - Index of mortgage-backed pass-through securities of Ginnie Mae, Fannie Mae, and Freddie Mac.

Beta - A measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. A beta of 1 indicates that the security/portfolio's price has moved with the market. A beta less than 1 means that the security/portfolio has been less volatile than the market. A beta greater than 1 indicates that the security/portfolio's price has been more volatile than the market.

Collateralized Mortgage Obligation (CMO) - Bonds that are collateralized by a pool of mortgages or by a portfolio of mortgage-backed securities. The bonds are serviced with the cash flows from these mortgages through a sequential distribution process that creates a series of bonds with varying maturities.

Consumer Price Index (CPI) - Monthly index of the cost of living that measures price changes for a fixed basket of goods and services bought by a typical consumer. The Bureau of Labor Statistics collects and weights data from 85 urban areas. The index includes food and energy and is not seasonally adjusted.

Core Bond Fixed Income Portfolio - A fixed income portfolio comprised of government securities, mortgage-backed securities, asset-backed securities and investment-grade corporate securities.

Core Plus Fixed Income Portfolio - A fixed income style that permits managers to add instruments with greater risk and greater potential return, such as high yield, global, and emerging market debt, to their core portfolios of investment-grade bonds.

Core Real Estate Portfolio - A real estate portfolio that is usually structured as a perpetual, open-end vehicle, is diversified between property types and geographic regions, and uses little to no leverage.

Correlation - A statistical measure of how two return series move in relation to each other. Correlation is represented by the correlation coefficient, which ranges between -1 and +1. Perfect positive correlation (a correlation co-efficient of +1) implies that as one return series moves, the other series will move in the same proportion in the same direction. Alternatively, perfect negative correlation means that if one series moves in either direction, the other series will move by an equal proportion in the opposite direction. If the correlation is 0, the movements of the series are said to have no linear correlation.

Covariance - A measure of the degree to which two return series move together relative to their individual mean balances over time. A positive covariance means that asset returns move together. A negative covariance means returns vary inversely.

Credit Default Swap - A swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap. For example, the buyer of a credit swap will be entitled to the par value of the bond by the seller of the swap, should the bond default in its coupon payments.

Credit Risk - The possibility of a loss occurring due to the failure to meet contractual debt obligations. This is one of the measurements of the likelihood that a party will default on a financial agreement.

Derivative - An asset that derives its value from another asset. Options, swaps, futures, and convertibles are examples of derivatives. For example, a call option on the stock of Coca-Cola is a derivative security that obtains its value from the ability to purchase shares of Coca-Cola at a predetermined price. A derivative can be either a risky or low-risk investment, depending upon whether it is used to hedge or leverage exposure to the underlying asset.

Diversification - The process of reducing risk by investing in more than one type of security, such as stocks, bonds and money market instruments.

Down Market Capture - Measures the manager's average performance in down markets relative to its benchmark.

Dow Jones Industrial Average (DJIA) - Thirty widely traded large capitalization stocks, primarily industrials that represent about 15% of the market value of New York Stock Exchange stocks. The value of the Dow is the sum of the per-share prices of the 30 components divided by an adjusted denominator to accommodate splits and changes in composition.

Dow Jones Wilshire 4500 Index - Index composed of the smallest stocks (excluding the stocks of the S&P 500 Stock Index) in the Dow Jones Wilshire 5000 Index.

Duration - Measures the sensitivity of a bond or portfolio's price to changes in interest rates.

Emerging Markets - Countries that are not yet considered to have advanced economies. Emerging markets tend to be more volatile than developed markets due to uncertainty within the economy, political scene, and domestic currency.

Enhanced Equity Portfolio - An investment strategy that attempts to produce small amounts of value added on a consistent basis by taking limited "bets" versus a stock index or by using index futures to gain the return of the index while investing the collateral in short-term, high quality fixed income to enhance overall returns.

Excess Returns - Returns in excess of the risk-free rate or set benchmark, such as a market index. A positive excess return indicates that the manager outperformed the benchmark for the period. (Excess Return = Manager Return - Benchmark Return).

Event-linked Bond - A bond that's principal and interest payments are tied to whether a specified event occurs during the "risk period." The event is usually a major catastrophe such as a hurricane, earthquake, or terrorist attack. The additional risk is compensated by significantly higher yields (10-15%).

Futures Contract - An agreement that provides for the future exchange of a particular asset at a specified delivery date in exchange for a pre-specified payment at the time of delivery. The full payment is not made until the delivery date, but a good faith deposit is made to protect the seller.

Growth Stocks - Stocks in a company whose earnings are expected to grow at an above average rate relative to the market. A growth stock usually does not pay a dividend, as the company would prefer to reinvest retained earnings in capital projects.

High-Yield Bonds - Also known as a "junk bonds" or "non-investment grade". A debt issue that is ranked below the top four categories of the major debt-rating services.

iMoneyNet Money Fund Report Average - Index of money market mutual funds based on 30-day yields

Index - A statistical yardstick composed of a basket of securities with a set of characteristics. An example of this is the "S&P 500", which is an index of 500 large cap U.S. stocks.

Index Fund - An index fund is a passively managed portfolio designed to track the performance of a certain index. Methodologies vary, and they may or may not invest in all of the securities in the index being tracked. In general, such funds target performance to be within a few basis points of the target index.

JP Morgan EMBI Global Index – An index that tracks total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities, including Brady bonds, loans and Eurobonds.

Large Capitalization Stocks - Stocks of companies with a market capitalization greater than approximately $18 billion.

Mezzanine Investments - Subordinated debt financing provided to a company that needs money for business expansion or to finish a construction project before it is able to obtain long-term financing.

MSCI All Country World Index ex-U.S. - Calculated by Morgan Stanley Capital International (MSCI), the index acts as a benchmark for managers of international portfolios that include developed and emerging markets, but exclude the U.S.

MSCI EAFE Index - Acronym for the MSCI Europe, Australasia and Far East Index. Calculated by Morgan Stanley Capital International (MSCI), the index acts as a benchmark for managers of developed international portfolios.

NCREIF Real Estate Index - Market-weighted index of investment-grade non-agricultural income-producing properties held in a fiduciary environment. It includes leveraged properties and joint ventures. Performance measures the total return (capital appreciation and income) before fees and is calculated by the National Council of Real Estate Investment Fiduciaries (NCREIF).

Non-Leveraged Structured Note - A short-term loan that has imbedded options to hedge against specified risks, such as rising interest rates. These notes are arranged by an investment bank and customized to meet the issuer's needs.

Open-end/Closed-end Funds - An open-end fund is a collective investment which can issue and redeem shares at any time. Mutual funds are the most common form of an open-end fund in the U.S. A closed-end fund is a collective investment with a limited number of shares. New shares are rarely issued once the fund has launched, so investors typically purchase shares in a secondary market from a broker.

Option Caps and Floors - A cap is an option contract that creates a ceiling on floating rate interest costs. When market rates move above the cap rate, the seller pays the purchaser the difference. A floor is an option contract that guarantees a minimum return on floating rate assets. When market rates move above the cap rate, the seller pays the purchaser the difference.

Passive Management - An investment strategy that attempts to track a market index and makes no active decisions regarding portfolio composition.

Rebalancing - The process of making adjustments to the weightings of assets within a portfolio to re-align with target allocations.

Russell 1000 Growth Index - Style index composed of securities in the Russell 1000 Index with high price/book and price/earnings ratios, low dividend yields, and high forecasted growth values. It is reconstituted annually on June 30 using characteristics as of May 31.

Russell 1000 Index - Index of the 1000 largest companies in the Russell 3000 Index. It is highly correlated to the S&P 500 Stock Index. It is reconstituted annually on June 30.

Russell 1000 Value Index - Style index composed of securities in the Russell 1000 Index with low price/book and price/earnings ratios, high dividend yields, and low forecasted growth values. It is reconstituted annually on June 30 using characteristics as of May 31.

Russell Midcap Index - Index composed of the bottom 800 securities in the Russell 1000, as sorted by market capitalization. It is reconstituted annually on June 30.

Russell 2500 Index - Index of the smallest 2500 companies in the Russell 3000 Index. It is reconstituted annually on June 30.

Russell 2000 Growth Index - Style index composed of securities in the Russell 2000 Index with high price/book and price/earnings ratios. It is reconstituted annually on June 30 using characteristics as of May 31.

Russell 2000 Index - Index of the smallest 2000 companies in the Russell 3000 Index, representing approximately 12% of the Russell 3000 Index total market capitalization. It is reconstituted annually on June 30.

Russell 2000 Value Index - Style index composed of securities in the Russell 2000 Index with low price/book and price/earnings ratios. It is reconstituted annually on June 30 using characteristics as of May 31.

Russell 3000 Index - Index of the largest 3000 U.S. stocks, as determined by total market capitalization; it represents about 98% of the investable U.S. equity market. It is reconstituted annually on June 30.

S&P 500 Index - An index of 500 of the largest stocks (by capitalization) in the United States. The S&P 500 is a common proxy for the performance of the broad stock market.

Sharpe Ratio - The Sharpe Ratio is calculated as the manager’s return minus the risk free rate, divided by the manager’s volatility. It measures risk-adjusted results.

Small Capitalization Stocks - Stocks of companies with a market capitalization less than approximately $2 billion.

Standard Deviation - A measure of risk, the standard deviation is a measure of the average deviations of a return series from its mean. A larger standard deviation implies greater volatility in the manager's return series.

Swap - A form of derivative security in which two counterparties agree to exchange one stream of cash flows against another stream. These streams are called the *legs* of the swap and are calculated based upon a notional principal amount. Either one or both of the streams of cash flow are determined by an uncertain variable such as interest rates, exchange rates, equity prices, or commodity prices.

Tracking Error - A measure of the amount of active risk taken by a manager. It is calculated by taking the standard deviation of the manager's excess return series. A higher tracking error generally indicates a higher level of risk being taken relative to a specified benchmark. Tracking error only accounts for deviations from the benchmark, but does not indicate whether these deviations are positive or negative.

Up Market Capture - Measures the manager’s average performance in up markets relative to its benchmark.

Value Added Real Estate Portfolio - A real estate portfolio that is usually structured as a closed-end vehicle with a fixed time horizon. These strategies typically use leverage and are more concentrated in property type and geographic region.

Value Stock - A stock that tends to trade at a lower price relative to its fundamentals (e.g., dividend yield, earnings, sales, etc.) and is therefore considered undervalued or cheap. Common characteristics of such stocks include a high dividend yield, low price-to-book ratio, and/or low price-to-earnings ratio.

Yankee Bonds - U.S. dollar-denominated debt issued in the U.S. by foreign corporations.