Douglas County Employees' Retirement System

Statement of Investment Policies and Objectives

Adopted January 1, 2006

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FOREWORD

This Statement of Investment Policies and Objectives has been developed by the Retirement Committee of the Douglas County Employees' Retirement System. The purpose of this Statement is to assist the Retirement Committee in effectively supervising and monitoring the investments of the Pension Fund.

In this policy document, the Retirement Committee has defined the Pension Fund's investment program by:

- defining the purpose of this pool of assets;
- identifying the parties responsible for managing the investment process;
- stating in a written document the Retirement Committee's attitudes, expectations, and objectives for the investment of the Pension Fund's assets;
- providing guidelines for the investment portfolios that control the variability of investment return and ensure that assets are managed in accordance with stated objectives; and
- establishing criteria to monitor and evaluate the performance results achieved by the investment managers.

This Statement represents the Retirement Committee's current goals for the investment of the Pension Fund. The Statement will be reviewed annually to ensure that it continues to be appropriate.

STATEMENT OF INVESTMENT POLICY

The primary objective of the Douglas County Employees' Retirement System is to provide present and future retirement or survivor benefits for its members by achieving an attractive rate of return as defined in this policy statement, without exposing the plan to undue risk.

It is important to note that this Pension Plan's investment portfolio is comprised of two components; a group annuity contract which is held by Mutual of Omaha Insurance Company, and an actively managed component. This investment policy document is intended to assist the retirement committee in effectively supervising and monitoring the assets in the actively managed component, which include all assets not a part of the group annuity contract.

RISK POSTURE

While an estimate of future investment returns is only one of a number of "assumptions" made in determining retirement benefits, a substantial shortfall of actual investment returns from those expected could require increased contributions or reduced benefits (or both).

The Retirement Committee has constructed their primary investment philosophy for Fund assets around the basic concept that a shortfall situation must be avoided. The philosophy has four basic elements. These are:

1. Preservation of capital is paramount.
2. A minimum level of return equal to the actuarial interest rate assumption should typically be earned on Fund assets.
3. A high degree of flexibility (investing in actively traded liquid financial instruments) and a low degree of volatility (as measured by Standard Deviation over a market cycle) is desired.
4. Maximization of the rate of return while operating within the confines of prudence and safety is optimal.

The Retirement Committee believes that it is appropriate for the Pension Fund to assume a moderate degree of investment risk with diversification of Fund assets among different classes (or types) of investments, as appropriate, as a means of reducing risk. Although the Pension Fund can and will tolerate some variability in market value and rates of return in order to achieve a greater long-term rate of return, primary emphasis will continue to be placed on preserving the Pension Fund's principal.

<u>The Retirement Committee also believes that investment decisions are best made when not restricted by excessive procedure. Therefore, full discretion is delegated to the investment managers to carry out investment policy within stated guidelines.</u>

INVESTMENT RESPONSIBILITIES

Several parties have responsibilities related to the investment of the Pension Fund's assets. These responsibilities are described briefly below:

Retirement Committee

The Retirement Committee has the responsibility for managing the investment process. In fulfilling this responsibility, the Retirement Committee will establish and maintain investment policies and objectives. Within this framework, the Retirement Committee will monitor and evaluate the investment managers, bank custodian, and other parties, to monitor whether operations conform to the guidelines and actual results meet objectives. If necessary, the Retirement Committee is responsible for making changes to achieve this.

County Board of Commissioners

The County Board of Commissioners overseas the investment process. As such , they should be apprised of and understand all major decisions relating to the structure of the investment portfolio; i.e., Investment Policy, Asset allocation, hiring and firing of investment manager and other providers, etc. Any changes in providers used by the Pension Fund must be approved by the Board of Commissioners.

Investment Managers

The investment managers will construct and manage investment portfolios. They will select specific securities, buy and sell such securities, and modify the asset mix within the guidelines. They will also allocate brokerage commissions and use only acceptable investment vehicles as outlined in this statement. More detailed investment manager responsibilities are outlined in a later section.

Bank Custodian

The bank custodian(s) will hold all cash and securities, and will regularly summarize these holdings for the Retirement Committee's review. In addition, a bank or trust depository arrangement will be utilized to accept and hold cash prior to allocating it to the investment manager, and to invest such cash in liquid, interest-bearing instruments.

Other Parties

Other parties with important responsibilities in the investment process are the Fund's actuary and investment consultant. The Fund's actuary advises the Retirement Committee as to the impact of investment results on funding levels. The investment consultant assists the Retirement Committee in monitoring the investment results of the various investment managers and portfolios on a quarterly basis, provides perspective on overall portfolio structure, helps establish investment policy issues, and assists in investment manager and custodian bank search and selection.

ASSET ALLOCATION & INVESTMENT STRUCTURE

Permissible Investments

Listed below are the investment vehicles specifically permitted currently under this Statement of Investment Policies and Objectives. They are categorized as equity or fixed income to indicate how they are classified for purposes of the asset-mix guidelines in a subsequent section.

- Common Stocks
- Convertible Preferred Stocks
- Convertible Bonds
- Bonds
- GIC's, BIC's
- Cash-Equivalent Securities (e.g., U.S. T-Bills, Commercial Paper, etc.)
- Certificates of Deposit in institutions with FDIC/FSLIC protection
- Money Market Funds/Bank STIF Funds
- Preferred Stocks

The above assets can be held in commingled (mutual) funds as well as privately managed separate accounts. Those investments prohibited by the Retirement Committee without prior approval are:

- Private Placement
- Commodities Futures
- Warrants
- **Purchases, Sales, or Engaging in Puts and Calls**
- **Short Sales**
- Index Options
- Structured Securities
- **Leveraged Instruments**

The pension investment program must operate in compliance with all applicable State and Federal laws and regulations concerning the investment of pension assets, particularly Nebraska State Statute 30-3209 and any others that may pertain to the County Retirement program.

Asset Allocation

The Retirement Committee believes that the level of risk assumed in the Pension Fund is a function, in large part, of the Fund's risk posture. The proportion of assets allocated for equity investments is the most important determinant of volatility of future returns. As indicated by long-term historical data, the risk of equity ownership has been rewarded with a higher rate of return.

Based on its determination of the appropriate risk posture for the Pension Fund, and in light of the higher expected long-term return from equity securities, the Investment Committee has established the following asset-mix guidelines for the Pension Fund:

Asset Class	Minimum	Maximum	Target
Equity Investments	**45%**	**55%**	**50%**
Large Cap Domestic Equity	**25%**	**35%**	**30%**
Small Cap Domestic Equity	**5%**	**15%**	**10%**
International Equity	**5%**	**15%**	**10%**
Fixed Income Investments (including money markets and mortgage investments)	**45%**	**55%**	**50%**

TOTAL PENSION FUND OBJECTIVES

Both relative and absolute results will be considered in the evaluation of the total Pension Fund's performance. Over a three to five year period, the total Pension Fund should:

- **Outperform Inflation.**
  The Pension Fund's annualized total return should exceed the annualized rate of inflation as indicated by the Consumer Price Index.

- **Meet or exceed Absolute Return objective**
  The Pension Fund's annualized total return should equal or exceed an absolute return objective of 7.5%

- **Meet specific performance benchmarks.**
  The Pension Fund's total return should exceed the total return of an index composed as follows:

30%	Standard & Poor's 500 Stock Index
50%	Lehman Aggregate Bond Index
10%	Russell 2000 Index
10%	EAFE Index

- **Outperform Similar Funds.**
  The Pension Fund's total return should rank at median or above as compared to a universe of balanced portfolios with similar weightings in equities and fixed income.

SECURITIES PORTFOLIOS
INVESTMENT OBJECTIVES & GUIDELINES

Individually Managed Fixed Income Portfolios

Guidelines

- The portfolio will be invested in marketable securities.

- The portfolio will be invested exclusively in fixed income securities, which includes money market instruments.

- No more than 2% of the portfolio shall be invested in the fixed income securities of any single corporate issuer. All other fixed income securities (other than those issued by the U.S. Government or its agencies) will be limited to 5% of the portfolio. There are no restrictions on the fixed income securities issued by the U.S. Government or its agencies.

- The modified duration of the portfolio will remain within 0.5 years of the assigned benchmark at all times.

- The diversification of the fixed income securities held in the portfolio among sectors and issuers is the responsibility of the investment manager. The investment manager is expected to diversify the portfolio sufficiently to minimize the risk of a large loss from a single security.

- The selection of individual securities will be at the discretion of the investment manager, except that all corporate fixed income securities must be given one of the three highest ratings by at least one statistical organization. Any commercial paper and median term notes of corporations owned by the Fund must have a minimum worth of $10 million. Money market instruments shall have a minimum quality rating comparable to an A bond rating and commercial paper shall be rated A1/P1 unless held in a diversified short-term commingled fund.

- The portfolio will be invested in a mix of fixed income securities and money market securities, but with primary emphasis on fixed income. Each investment manager is expected to be 90% to 100% invested in bonds and other fixed income securities, other than money market and bank STIF funds most of the time; however, if the investment manager believes that market conditions warrant it, he or she may reduce his bond holdings without prior consent of the Investment Committee.

- Regarding Collateralized Mortgage Obligations, only issues rated AA or better at time of purchase are permitted. Maximum of 5% in any issue. Principal leverage in CMOs or other structured bonds in the portfolio is prohibited.

- All portfolio assets will be held by a custodian bank which will be determined by the Pension Committee.

Objectives

Primary emphasis is to be placed on rates of return. Over a market cycle (usually 3 - 5 years), the following are the performance objectives for the portfolio:

- The total return of each portfolio, after fees, should exceed the total return of the Lehman Aggregate Bond Index.
- The total return of each portfolio should rank above median in a universe of all fixed income styles.
- The total return of each portfolio should rank above median in a universe of the manager's particular peer sample.

Individually Managed Equity Portfolios

Guidelines

The portfolio will be invested in marketable securities. Restricted or letter stock, etc., are not permitted.

- The portfolio will be invested in a mix of equity and money market securities, but with primary emphasis on equities. Each investment manager is expected to be 90% to 100% invested in equities most of the time; however, if the investment manager believes that market conditions warrant it, he or she may reduce his or her equity holdings without prior consent of the Retirement Committee.
- No more than the greater of 5% or 1.5 times the benchmark weight at the time of purchase shall be invested in the equity securities of any one corporation.
- Any preferred or common stocks owned by the Fund must have a minimum net worth of $10 million.
- The selection of individual securities will be at the discretion of each investment manager. Money market instruments should have a minimum quality rating comparable to an A bond rating. Commercial paper shall be rated A1/P1 unless held in a diversified short-term commingled fund.
- All portfolio asset will be held by a custodian bank which will be determined by the Pension Committee.

Objectives (Large Cap Managers)

Primary emphasis is to be placed on relative rates of return. Over a market cycle (usually 3-5 years), the following are the performance expectations for the portfolio:

- The total return of each portfolio, after fees, should exceed the total return of the Standard & Poor's 500 Index and/or the relevant style specific index (i.e. the Russell 1000 Value or Russell 1000 Growth index).

- The total return of each portfolio should rank above median in a universe of the manager's particular peer sample.

Objectives (Small Cap Managers)

Primary emphasis is to be placed on relative rates of return. Over a market cycle (usually 3-5 years), the following are the performance expectations for the portfolio:

- The total return of each portfolio, after fees, should exceed the total return of the Russell 2000 Index.

- The total return of each portfolio should rank above median in a universe of the manager's particular peer sample.

International Equity Portfolios

Guidelines

- The portfolios will be invested in marketable securities permitted under Nebraska State Statute 30-3209. Restricted or letter stock, etc., are not permitted.

- The portfolio can invest in a mix of equity and money market securities, but with primary emphasis on equities. Each investment manager is expected to be 90% to 100% invested in equities.

- Pooled funds can be used as international equity investment vehicles.

Objectives

Primary emphasis is to be placed on relative rates of return. Over a market cycle (usually 3-5 years), the following are the performance expectations for each portfolio:

- The total return of each portfolio should rank in the upper half in a universe of international equity oriented portfolios.

- The total return of the portion of each portfolio invested in international equity securities should exceed the total return of the EAFE Index.

RESPONSIBILITIES OF EACH INVESTMENT MANAGER

The duties and responsibilities of each investment manager appointed to manage the Fund's assets are:

- Managing the assets in accordance with the policy guidelines and objectives expressed herein, or expressed in a separate written agreement when deviation is deemed prudent and desirable.

- Exercising complete investment discretion within the guidelines and objectives state herein. Such discretion includes decisions to buy, hold, or sell securities in amounts and proportions reflective of the manager's current investment strategy and compatible with the objectives for the Fund assets.

- Promptly informing the Retirement Committee regarding all significant matters pertaining to the investment of the assets. The Retirement Committee should be kept apprised of major changes in investment strategy, portfolio structure, market value of the assets, and other matters affecting the investment of the assets. The Retirement Committee should also be informed promptly of any significant changes in the ownership, affiliation, organizational structure, financial condition, or professional personnel staffing of the investment management organization.

- Submitting to the Retirement Committee documents, exhibits, written material, etc., which will be used during the periodic conferences between the Retirement Committee and the manager in advance of these conferences.

- Initiating written communication with the Retirement Committee whenever the investment manager believes that this Statement of Investment Policies and Objectives should be altered. No deviation from guidelines and objectives established in the Statement should occur until after such communication has occurred and the Retirement Committee has approved such deviation.

- The investment managers responsible for the equities shall have complete discretion with respect to the voting of proxies subject to the requirements of Nebraska State Statute 30-3209. Further, the manager shall advise the Retirement Committee as to their Proxy policies and report to the Committee their proxy voting on a regular basis (annually).

- The investment managers should select brokers based on the most efficient execution and commission results. (The Retirement Committee may consider directing commissions to offset other expenses in selecting brokers as long as there is no impairment in overall efficiency and performance.)

- The investment manager should have ongoing communication with the custodian bank who will be holding the assets to confirm account balances and cash flows and address any issues regarding portfolio transactions.

- The investment manager shall comply with all applicable State and Federal laws and regulations concerning the investment of pension assets, particularly the State of Nebraska Statute 30-3209.

EVALUATION & REVIEW

At least once annually, the Retirement Committee will review:

EACH MANAGER'S PERFORMANCE:

- The investment managers should have operated in accordance with the policy guidelines set forth herein.

- Asset allocation and securities selection decisions should have been reasonable.

- The investment manager's performance should have been satisfactory when compared with the objectives stated herein.

- On a regular basis, the Retirement Committee, using the advice of the investment consultant, will review money managers' proxy voting procedures and proxy voting record.

TRADING COSTS:

- The Retirement Committee, using the advice of the investment consultant, will review commissions generated, commission rates charged, and firms used by the money managers.

OVERALL POLICY:

- The Retirement Committee will formally review this Statement of Investment Policies and Objectives to determine whether it continues to be appropriate in light of the Retirement Committee's investment philosophy and objectives, and changes in the capital markets.

ADDENDUM
Specific Manager Guidelines

Intech (Large Cap Growth)

Additional Guidelines:	N/A
Benchmark(s):	S&P 500/ Citigroup Growth
Peer Group(s):	Large Cap Growth Managers

Sanford Bernstein (Large Cap Value)

Additional Guidelines:	N/A
Benchmark(s):	Russell 1000 Value
Peer Group(s):	Large Cap Value Managers

Batterymarch Financial Management (Small Cap Core)

Additional Guidelines:	N/A
Benchmark(s):	Russell 2000
Peer Group(s):	Small Cap Core Managers

State Street Global Advisors (Fixed Income - Passive)

Additional Guidelines:	N/A
Benchmark(s):	Lehman Aggregate
Peer Group(s):	Core Bond Managers