



INVESTMENT POLICY STATEMENTS

GOAL

The function of the Public Employees' Retirement Association is to provide present and future retirement or survivor benefits for its members. In keeping with that function, the preservation of capital is of paramount importance. The future investment performance of the fund directly affects its future financial strength. Earnings on portfolio assets in excess of the assumed actuarial rate of return reduce unfunded actuarial liabilities. However, the greater the expected return, the higher the risk, and thus the greater the volatility of expected returns.

POLICY

The fund is long-term in nature, and the selection of investment is regulated by: (1) statutory limitation, (2) investment time horizon, (3) limits of acceptable risk, and (4) the objective of an optimizing total rate of return. Approval of all purchases and sales of investments is vested by law in the PERA Board. The Deputy Executive Director of Investments is authorized to execute investment transactions on behalf of the Board as permitted under these policy and procedure statements.

Investment decisions shall be made within the framework of the goal established for the rate of return, limits of acceptable risk and fund objectives. The goal is to optimize the return of the portfolio as opposed to maximizing rate of return. The optimal portfolio mix is one that carefully equates expected rate of return with expected risk of all investment categories utilized in the portfolio. In setting the optimal mix of assets for the portfolio, the Board has developed the following strategic (long-term) asset allocation policy, which incorporates a diversified asset mix.

ASSET CLASSES	TARGET	MINIMUM	MAXIMUM
Cash	0%	0%	4%
Domestic and International			
Fixed Income	25%	20%	30%
Domestic Equities	45%	39%	51%
International Equities	14%	11%	17%
Real Estate Equity and Debt	7%	5%	10%
Alternative Investments	8%	3%	12%
Timber	1%	0%	2%

The targeted strategic asset allocation is designed to provide an optimal asset mix for the portfolio that emphasizes diversification in order to lower risk and maximize total rate of return relative to risk. Since the investment time horizon of the portfolio is long-term and the portfolio is constructed to avoid the necessity of liquidating holdings to meet benefit payments, liquidity is not a first consideration; however, every reasonable effort will be made to provide protection for the portfolio in future deteriorating markets.

The Board recognizes that individual investment holdings contain substantially higher risk than portfolios constructed of such holdings. Consequently, primary emphasis will be given to diversification of the portfolio on an optimal basis utilizing the diversified strategic asset mix stated above; and while efforts will be made to maintain the quality of individual holdings, it is recognized that the utilization of certain nontraditional asset categories, such as venture capital, international equities, fixed income and real estate, may contain substantially higher risk with individual issues. Consequently, primary effort will be made to diversify the risk of the total portfolio through optimal diversification as opposed to concentrating on individual issues.

The portfolio will be managed by a carefully constructed mix of internal and external management. No holding will be considered a "permanent" part of the portfolio. Any security can be sold at any time either to increase gains or to decrease losses.

The targeted strategic asset allocation is designed to provide the optimal mix of asset categories over the investment time horizon of the portfolio. In doing so, the characteristics of expected return, risk, and correlation of return of the various asset categories have been carefully projected. Both traditional (cash, bonds, domestic equities, fixed income, mortgages) and nontraditional assets (real estate, GIC's, international investments, including equities and fixed income, alternative investments) will be incorporated into the targeted strategic asset mix.

Preference will be given to Colorado investments, all other things being equal. However, in order to provide optimal portfolio diversification by geographical location and asset categories and to maintain fiduciary responsibility, investments located within the state of Colorado shall not exceed twenty percent (20%) of the aggregate (combined) portfolios (at cost). Within the twenty percent (20%) limitation, every effort will be made to further diversify the available asset classes (commercial real estate mortgages, common stock holdings, corporate debt, equity ownership of real estate, residential mortgage pools and venture capital).

In making investment decisions, the Board shall avail itself of the highest caliber advice obtainable both internally and externally. This advice may include the internal investment management staff, outside investment managers selected for both traditional and nontraditional asset classes and investment consultants selected by the Board for specific expertise in implementing and carrying out the portfolio process.

Generally Accepted Accounting Principles (GAAP) will be followed in accounting for the portfolio; however, GAAP should not restrict investment decisions. Securities recorded at original cost, adjusted cost and market value will be reported to the Board. The firm engaged for the annual audit shall be consulted when questions concerning accounting procedures arise. An annual evaluation shall be conducted by a performance evaluation service from the investment industry. In addition, the annual external audit and the annual actuarial evaluation shall be reviewed in conjunction with the evaluation of investment performance. All evaluations will be related to the Association's stated goals. Because these goals are long-term, cumulative performance results will be considered as more important than performance in any one year.