

**STATE OF NEW MEXICO
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
P.O. Box 2123
Santa Fe, N.M. 87504-2123
33 Plaza la Prensa
Santa Fe, N.M. 87507**

**REQUEST FOR PROPOSALS
FOR
TRANSITION MANAGEMENT SERVICES**

RFP NO. NM INV-002-FY11

January 21, 2011

Notice: New Mexico criminal statutes impose felony penalties for bribes, gratuities and kickbacks.

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Appendix F: Sample Professional Services Agreement and Investment and Operational Guidelines**	

**** Please note that Offerors are required to provide a marked version of Appendix F as part of their proposal as reviewed by their legal counsel incorporating all changes sought by Offerors, however, the Professional Services Agreement Language may ONLY be modified in the sole discretion of PERA to conform to the needs of PERA and the offerings of specific contractor(s).**

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PART I. INTRODUCTION AND GENERAL INFORMATION

PERA is a public pension fund responsible for the investment of all monies constituting the assets of the Public Employees Retirement Fund, the Judicial Retirement Fund, the Magistrate Retirement Fund, and the Volunteer Firefighters Retirement Fund. The retirement systems are treated as qualified plans under Section 401(a) of the Internal Revenue Code. The Fund's assets were estimated to be in excess of \$11.6 billion as of December 31, 2010.

As further described below, the purpose of this Request for Proposals ("RFP") is to invite responsible Offerors to submit competitive sealed proposals to provide Transition Management services. Such services shall conform to PERA's investment rules, Investment Policy, and statutory investment requirements, as they may be amended from time to time. PERA's current Investment Policy and Investment Statutes (NMSA 1978, Sections 10-11-132, 10-11-133, and 10-11-133.1), the NM Uniform Prudent Investor Act (NMSA 1978, Sections 45-7-601 to 45-7-612), the Investment Policies and Practices (2.80.300 NMAC), and the Sample Professional Services Agreement and Investment and Operational Guidelines are attached hereto in Appendices "E" and "F", respectively.

PART II. SUBMISSION OF PROPOSALS

A. General Information

In order to be considered, Offerors shall submit a formal acknowledgement of meeting all of the Minimum Qualifications (MQs) by submitting Appendices "A" and "B" to PERA's consultant, R.V. Kuhns & Associates, Inc. (RVK) on behalf of PERA by the time stated in the Timetable below. Only the Offerors meeting the MQs shall submit their formal proposals to RVK on behalf of PERA by the time specified in the Timetable below. All proposals shall become the property of PERA.

A proposal may be withdrawn or modified prior to the time and date established in the Timetable below for PERA's receipt of proposals. Any withdrawal, or modification received after the established time and date for delivery of proposals to PERA shall be considered late. Offerors shall bear in mind that such late withdrawals or modifications can only be considered under very limited circumstances.

B. Timetable For The Procurement

PERA intends that the following schedule govern the procurement under this RFP. However, the exact dates for items No. 6-9, and the dates for negotiations, if any, shall be set at PERA’s discretion without the need to amend the RFP.

	<u>Action</u>	<u>Responsibility</u>	<u>Date</u>
1.	Release of RFP	PERA	01-21-2011
2.	<p>Return Acknowledgment of Compliance with Minimum Qualifications (Appendix A) Only the RFP responses of the Offerors meeting the MQs will be considered. Offerors must address their Acknowledgement to RVK at:</p> <p><i>Jonathan Kowolik R.V. Kuhns & Associates, Inc. One Penn Plaza, Suite 2128 New York, NY 10119 Attention: PERANM 2011 TM RFP</i></p>	Offerors	02-04-2011 5 PM EST
3.	<p>Deadline for Submission of Written Questions Written questions should be submitted by E-MAIL ONLY to RVK at PERANM.2011.TM@rvkuhns.com. Please clearly label your questions by referring to the appropriate section (and/or paragraph) and page of the RFP. PERA is not obligated to answer questions of the firms not meeting the MQs and questions received after the stated deadline.</p>	Offerors	02-04-2011 5 PM EST
4.	<p>Response to Written Questions In order to obtain copies of PERA’s answers to written questions, Offerors shall submit the Acknowledgment of Minimum Qualifications Compliance (Appendices “A” & “B”) to RVK by February 4, 2011. No written response to the questions shall be construed as a modification of the RFP unless PERA amends the RFP in accordance with New Mexico PERA’s Investment-Related Services Procurement Policy.</p>	PERA	02-11-2011
5.	<p>Deadline for Submission of Proposals Please refer to the instructions in Part I, above. Please include any proposed amendments to the sample professional services agreement and Investment and Operational Guidelines (Appendix “F”).</p>	Offerors	02-18-2011

6.	Evaluation of Proposals Oral presentations of Finalists Short-listed Offerors shall make oral presentations to the Evaluation Committee, as is more fully described in Part IV of this RFP.	Evaluation Committee	To be set
8.	Contract Award(s) The PERA Board intends to make the contract award at one of its meetings on or before May 10, 2011, subject to satisfactory completion of a due diligence visit by PERA, if appropriate, and further subject to negotiation of a final contract on terms acceptable to PERA.	PERA Board	To be set
7.	On-site due diligence PERA Board members, PERA staff, or other PERA representatives may make on-site due diligence visits to the offices of short-listed Offerors at the expense of the Offeror.	Evaluation Committee, PERA Staff	To be set
9.	New contract(s) proposed effective date		June 1, 2011

C. Delivery Information

- **Acknowledgement Form.** All Offerors planning on submitting a response to this RFP should complete, sign and return the Acknowledgement of Minimum Qualifications Compliance and Acknowledgement of Receipt Form (Appendices “A” & “B”) to R.V. Kuhns & Associates, Inc. at the following addresses:

1. R. V. Kuhns & Associates, Inc.
One Penn Plaza, Suite 2128
New York, NY 10119
Attention: PERANM 2011 TM Search

2. PERANM.2011.TM@rvkuhns.com

- **Questions.** Prospective Offerors shall direct all questions for the Questions and Answers portion of this RFP electronically to R.V. Kuhns & Associates, Inc. by the date specified in the Timeline at: PERANM.2011.TM@rvkuhns.com.

Answers to questions will be provided only to Offerors who have completed and submitted the Acknowledgement of Minimum Qualifications Compliance and Acknowledgement of Receipt Form (Appendices “A” & “B”) by the deadline.

Nothing stated by PERA or RVK orally or in writing shall operate to amend this RFP unless such statements are reduced to a written amendment in accordance with the PERA Procurement Policy for Investment-Related Procurement Policy.

NO ORAL OR WRITTEN QUESTIONS CONCERNING THIS RFP SHALL BE DIRECTLY ADDRESSED BY OFFERORS OR POTENTIAL OFFERORS, OR THEIR REPRESENTATIVES, TO ANY OTHER MEMBER OF THE PERA STAFF, TO PERA BOARD MEMBERS, OR TO PERA'S INVESTMENT CONSULTANT UNTIL CONTRACTS HAVE BEEN AWARDED AND THE PROTEST PERIOD HAS EXPIRED. AN OFFEROR'S FAILURE TO COMPLY WITH THIS RESTRICTION MAY RESULT IN DISQUALIFICATION OF THE OFFEROR.

- **RFP Response.** Offerors meeting the MQs shall submit their complete proposals by the time specified in the Timetable **in electronic format** (i.e. PDF format) via email to R.V. Kuhns & Associates, Inc. at: PERANM.2011.TM@rvkuhns.com.

NO FACSIMILE TRANSMISSIONS OF A PROPOSAL SHALL BE ACCEPTED. NO PROPOSALS SHALL BE SENT DIRECTLY TO PERA.

PERA will require hard copies of the proposal from Offerors selected for oral presentations. (See Parts V and VI, below, for a description of the oral presentations.)

PART III. SCOPE OF WORK

As further discussed in this RFP, PERA requests proposals for transition management services. Transition management services proposed by the Offeror will be referred to, where appropriate, as the "proposed product" in this RFP. PERA reserves the right (but is not obligated) to select and approve multiple transition management firms that will be included in an approved transition manager bench for PERA. It is anticipated that a Transition Management bench consisting of approximately 5 providers under contract will be formed. PERA staff reserves the right to select a manager from the transition manager bench for each discrete transition event at its sole discretion.

No commitment is made by PERA to the successful Offerors as to the use of their proposed services or the time frame when their services will be needed.

PART IV. MINIMUM QUALIFICATIONS

Each Offeror must certify that it meets all of the following minimum qualifications as of the date its proposal is submitted to PERA. In order to certify, the Offeror shall complete and submit all forms required by this RFP and sign the Signature Page contained in Appendix "C," Company Questionnaire.

FAILURE TO MEET AND CERTIFY THE FOLLOWING SHALL RESULT IN THE REJECTION OF THE PROPOSAL FOR NON-RESPONSIVENESS.

- A. **Years of Experience:** Transition management organization must have at least three years of experience transitioning assets for institutional clients.

- B. **Annual Assets Transitioned:** Transition management organization must have successfully transitioned at least \$5.0 billion of public market assets over the last twelve months (January 1, 2010 to December 31, 2010).
- C. **Assets Transitioned Per Asset Class:** Transition management organization must have successfully executed at least one transition for each of the public market asset classes over the last twelve months (January 1, 2010 to December 31, 2010) in an amount equal to or greater than the amount listed in the following schedule.

Asset Class	Minimum Size
Equity	
US Large Cap	\$500 Million
US Small Cap	\$250 Million
Non-US Equity	\$500 Million
Fixed Income	
Domestic Fixed Income	\$500 Million
Global Fixed Income	\$500 Million

- D. Company Questionnaire. Offeror must complete all questions in Appendix “C,” Company Questionnaire. Additionally, Offeror must certify that all data provided in Appendix “C,” Company Questionnaire is complete and accurate by signing the Signature Page contained in Appendix “C,” Company Questionnaire.
- E. Offeror must agree to incorporate the warranties attached as Appendix “D,” Warranties into any contract entered into as the result of a contract award made under this RFP. (See Signature Page, Appendix “C,” Company Questionnaire for certification)

PART V. EVALUATION OF PROPOSALS

PERA reserves the right (but is not obligated) to choose multiple managers under this RFP for its approved transition manager services bench as described in Part III, above. PERA will select those Offerors for its approved transition management bench whose proposal is deemed most advantageous to PERA, taking into consideration the applicable evaluation factors set forth below. Please note that the listing of fees as an evaluation factor does not require PERA to select the Offeror with the lowest explicit fee proposal listed provided as standard fee rates. In addition, a serious deficiency in the score for any one factor may be grounds for rejection of a proposal regardless of the Offeror’s overall score.

By selecting an Offeror for the bench, PERA will enter into a contract with the Offeror yet reserves the discretion (but no obligation) to engage the Offeror for individual transition events. For each individual manager transition, PERA reserves the right to award a transition event engagement to an Offeror at its sole discretion. PERA also reserves the right to choose the

services of a PERA contracted investment manager for a transition rather than choosing the services of the Offerors selected for its transition management services bench.

The evaluation factors and assigned points to be applied to the proposals received are as follows:

1. Offeror’s background and experience as a transition manager (includes consideration of years in business; experience of the firm and people involved in providing transition management services; stability of organization and people (turnover); and others) **20 Points**
2. Offeror’s transition management methodology. **20 Points**
3. Offeror’s operations and execution..... **20 Points**
4. Reporting **10 Points**
5. Disclosures/Conflicts of Interests **20 Points**
5. Fees **10 Points**
- Total Possible Points..... 100 Points**

The evaluation of proposals will be conducted by RVK in conjunction with PERA Staff. Short-listed Offeror(s) will make oral presentations to PERA Staff and RVK. PERA Staff and RVK shall rank the proposals on each evaluation factor, including the short-listed Offerors’ oral presentations and interviews, in accordance with the evaluation criteria and select the Offeror(s) to be awarded the contract. PERA Staff and RVK will make final recommendations to the Board and the Board will approve final managers to be on the PERA Transition Management bench. The final contract award(s) shall be made by the PERA Board, subject to such conditions as the PERA Board deems appropriate. PERA is not obligated to award any contract described in this RFP.

Proposals that are non-responsive because of the failure to meet the minimum qualifications (See Part IV), or otherwise, shall be eliminated from further consideration.

PART VI. CONTRACTUAL REQUIREMENTS

The contract between PERA and the successful Offeror shall contain substantially the same terms and conditions in the sample contract and operational guidelines attached to this RFP in Appendix “F”. The contract shall incorporate directly (or by reference) the warranties that appear at Appendix “D.” Copies of PERA’s current Investment Policy and Investment Statutes, and Investment Policies and Practices Rule (PERA Rule No. 2.80.300 NMAC), located in Appendix “E,” shall be attached to the contract. While Offerors may suggest additional contractual terms and conditions, PERA reserves the right to reject any terms and conditions that change the terms and conditions set forth by PERA in the warranties attached hereto at Appendices “D” and the general Investment and Operational Guidelines set forth in Appendix

”F.” Any additional terms and conditions that PERA may, at PERA’s sole discretion, accept will be incorporated into any final contract. **A sample Professional Services Agreement is attached as Appendix “F” and Offerors are required to provide a marked version of this contract document with their RFP response.** An evaluation of relative ability of PERA to successfully contract under favorable terms and conditions with Offeror will be performed as part of the RFP evaluation process.

Pursuant to the terms of PERA’s investment policy, the contract(s) between PERA and the successful Offeror(s) for Transition Management services described in this RFP shall incorporate Investment and Operational Guidelines that set the guidelines and administrative requirements for the Transition Management Services provided by the Offeror. A copy of the general requirements for the Investment and Operational Guidelines is attached to this RFP as Appendix “F.” The final form of Investment and Operational Guidelines will also incorporate the transition management services and process applicable for general transition management services.

The term of the contract(s) shall be for 8 years and is intended to commence on June 1, 2011.

PERA may, in its sole discretion, conduct discussions or negotiations with Offerors, in accordance with the requirements of the NM PERA Investment-Related Services Procurement Policy. It should be clearly understood, however, that PERA reserves the right to accept proposals and make contract awards without conducting such discussions or negotiations. Furthermore, as a condition of submitting a proposal, all Offerors shall agree to provide the services required by this RFP and to adhere to all the requirements, specifications, terms, and conditions of this RFP. For these reasons, PERA strongly recommends that Offerors review the RFP with their corporate counsel in advance of submitting a proposal. (Also see Part VII, Form of Proposals, below, and the Signature Page located in Appendix “C,” Company Questionnaire.)

If PERA elects to conduct discussions or negotiations with Offerors, PERA may establish a common date for submissions of best and final fee offers, if appropriate. Offerors shall bear any and all costs incurred by them in the conduct of any discussions or negotiations, including travel to New Mexico for oral presentations (as applicable), telephone interviews (as applicable), or their costs associated with due diligence visits made by members of the RFP Evaluation Committee. Any additional terms and conditions which may be the subject of negotiation will be discussed only between PERA and the Offeror who suggests them and shall not be deemed an opportunity to amend the Offeror’s proposal in any other respect.

PART VII. FORM OF PROPOSALS

Proposals submitted in response to this RFP must be organized and submitted in the format described below, using the applicable forms attached to the RFP and following the instructions in such forms. Only finalists will be required to submit signed hard copy proposals, which should be printed front and back on standard 8 1/2 x 11 paper, in portrait layout, and placed within binders. Within each section of the proposal, Offeror should address the items in the RFP in the order in which they appear in the RFP. Furthermore, for each form that is attached to the

RFP, as required, each question should be repeated in its entirety before the answer. Proposals should stress completeness, clarity, and succinctness. (See Appendices “C” and “E”)

Any proposal that does not strictly adhere to the following format, and does not address each specification and requirement within the RFP and the applicable forms may be deemed non-responsive:

- A. Each proposal shall contain an index or table of contents near the front of the proposal, listing the materials included in the proposal.
- B. Offerors shall complete, sign and attach to the proposal a completed and signed Signature Page (Found in Appendix “C”, Company Questionnaire). This page must be signed by a signatory with the authority to bind the Offeror. The Signature Page must contain the following statement: “By signing this Company Questionnaire, through the undersigned representative who has the authority to bind the Offeror, and by submitting a proposal in response to RFP NO. NM INV-002-FY11, Offeror agrees to perform the services required by such RFP and to adhere to all requirements, specifications, terms and conditions of the RFP. Offeror further agrees to be bound by this proposal for a minimum of 180 days from the date the RFP was issued.” Additionally, by signing the Signature Page contained in Appendix “B”, Company Questionnaire, the Offeror agrees to accept and comply with all the terms and conditions of the RFP.

Any proposals not bearing the appropriate signatures on the Signature Page contained in Appendix “C”, Company Questionnaire, referenced above, will not meet the minimum qualification requirements of the RFP and will not be considered further in the evaluation process.

Offerors may also include the following in their proposals:

- C. The Offeror may attach such other supplementary material as it sees fit to explain its proposal and any additional contractual terms and conditions that the Offeror may suggest. (See Part VI, above.)
- D. The Offeror may request in writing the nondisclosure of confidential information contained in the proposal. Such data shall be clearly marked and identified as “confidential” and shall be easily separable from the proposal in order to facilitate any eventual public inspection of the non-confidential portions of the proposal. After contract award, each proposal, except those portions for which the Offeror has made a valid written Request for confidentiality, shall be open to public inspection. PERA reserves the right to review the appropriateness and validity of a request for confidentiality.

**PART VIII. REFERENCES TO NEW MEXICO STATUTES AND NM PERA
PROCUREMENT POLICY**

The Public Employees Retirement Association of New Mexico (PERA) operates under the authority of the Public Employees Retirement Act, NMSA 1978, Sections 10-11-1 to 10-11-142, as amended, the Volunteer Firefighters Retirement Act, NMSA 1978, Sections 10-11A-1 to 10-11A-7, as amended, the Judicial Retirement Act, NMSA 1978, Sections 10-12B-1 to 10-12B-19, as amended, the Magistrate Retirement Act, NMSA 1978, Sections 10-12C-1 to 10-12C-18, as amended, and the Public Employees Reciprocity Act, NMSA 1978, Sections 10-13A-1 to 10-13A-4, as amended.

This RFP is governed by the PERA Procurement Policy for Investment-Related Services. This RFP may be canceled and any and all proposals may be rejected in whole or in part when it is in the best interests of PERA. This RFP shall not be modified except by written amendment. Proposals received late can only be considered under very limited circumstances. A proposal may be withdrawn or modified prior to the time and date established above for PERA's receipt of proposals.

Services requested in this RFP shall conform to PERA's investment rules, Investment Policy, and statutory investment requirements, as they may be amended from time to time. PERA's current Investment Policy, investment statute (NMSA 1978, Sections 10-11-132, , 10-11-133 and 10-11-133.1), the NM Uniform Prudent Investor Act (NMSA 1978, Sections 45-7-601 to 45-7-612), and Investment Policies and Practices Rule (No. 2.80.300 NMAC) are attached hereto as Appendix "F".

PERA may, in its sole discretion, conduct discussions or negotiations with Offerors. It should be clearly understood, however, that PERA reserves the right to accept proposals and make contract awards without conducting such discussions or negotiations.

No written response made by PERA staff to questions asked by the Offerors shall be construed as a modification of the RFP unless PERA formally amends the RFP.

MINIMUM QUALIFICATIONS COMPLIANCE

TRANSITION MANAGEMENT SERVICES

Each Offeror must certify that it meets all of the following minimum qualifications as of the date its proposal is submitted to PERA. In order to certify, the Offeror shall complete and submit all forms required by this RFP and sign the Signature Page contained in Appendix “C,” Company Questionnaire. **FAILURE TO MEET AND CERTIFY THE FOLLOWING SHALL RESULT IN THE REJECTION OF THE PROPOSAL FOR NON-RESPONSIVENESS.**

- A. **Years of Experience:** Transition management organization must have at least three years of experience transitioning assets for institutional clients.
- B. **Annual Assets Transitioned:** Transition management organization must have successfully transitioned at least \$5.0 billion of public market assets over the last twelve months (January 1, 2010 to December 31, 2010).
- C. **Assets Transitioned Per Asset Class:** Transition management organization must have successfully executed at least one transition for each of the public market asset classes over the last twelve months (January 1, 2010 to December 31, 2010) in an amount equal to or greater than the amount listed in the following schedule.

Asset Class	Minimum Size
Equity	
US Large Cap	\$500 Million
US Small Cap	\$250 Million
Non-US Equity	\$500 Million
Fixed Income	
Domestic Fixed Income	\$500 Million
Global Fixed Income	\$500 Million

- D. Company Questionnaire. Offeror must complete all questions in Appendix “C,” Company Questionnaire. Additionally, Offeror must certify that all data provided in Appendix “C,” Company Questionnaire is complete and accurate by signing the Signature Page contained in Appendix “C,” Company Questionnaire.
- E. Offeror must agree to incorporate the warranties attached as Appendix “D,” Warranties into any contract entered into as the result of a contract award made under this RFP. (See Signature Page, Appendix “C,” Company Questionnaire for certification)

APPENDIX B
RFP NO. NM INV-002-FY11

RFP# _____ TYPE: _____

FIRM: _____

REPRESENTED BY (CONTACT PERSON): _____

TITLE: _____

E-MAIL ADDRESS: _____

ADDRESS: _____

CITY: _____

FAX NUMBER: _____ PHONE NUMBER: _____

This page has been signed by an authorized signatory with the authority to certify that the Offeror meets the above-stated minimum qualifications. Offeror further acknowledges receipt of a complete RFP document as described in Appendix C and intends, but is not required, to submit a response.

SIGNED BY: _____

Name (print): _____

Title: _____

Date: _____

RETURN THIS FORM TO:

R.V. Kuhns & Associates, Inc.
One Penn Plaza, Suite 2128
New York, NY 10119
Attention: Jonathan Kowolik
Re: PERA TM RFP

SEND AN ELECTRONIC COPY OF THE SIGNED FORM TO:

PERANM.2011.TM@rvkuhns.com

SIGNATURE PAGE

TRANSITION MANAGEMENT SERVICES

1. ACKNOWLEDGMENT OF RECEIPT FORM

In acknowledgement of receipt of this Request for Proposal, the Offeror acknowledges that a complete copy of the RFP for Transition Management Services, beginning with the title page and ending with Appendix “F,” Sample Professional Services Agreement, has been received. This firm intends at this time to respond to RFP NO. NM INV-002-FY11.

2. MINIMUM QUALIFICATIONS COMPLIANCE

The Offeror hereby certifies that it meets all of the minimum qualifications detailed in Appendix “A,” Minimum Qualifications Compliance. The Offeror has answered all questions and submitted all attachments requested in Appendix “A,” Minimum Qualifications.

3. WARRANTIES

Offeror agrees to the incorporation of the warranties listed in Appendix “D,” Warranties, in any contract entered into with PERA.

4. COMPANY QUESTIONNAIRE CERTIFICATION

Offeror has completed all questions in Appendix “C,” Company Questionnaire accurately and completely, including Exhibit “1,” **PERANM TM RFP Quantitative Summary (MS Excel Format)**.

**APPENDIX C, Signature Page, Cont.
RFP NO. NM INV-002-FY11**

FIRM NAME: _____

ADDRESS: _____

E-MAIL ADDRESS: _____

TELEPHONE #: _____

FACSIMILE #: _____

FEDERAL EMPLOYER IDENTIFICATION # _____

NEW MEXICO TAX # (if any) _____

CONTACT PERSON FOR PROPOSAL _____

This page has been signed by a signatory with the authority to bind the Offeror. By signing this Company Questionnaire, the undersigned representative who has the authority to bind the Offeror, and by submitting a proposal in response to RFP NO. NM INV-002-FY11, Offeror agrees to perform the services required by such RFP and to adhere to all requirements, specifications, terms and conditions of the RFP. Offeror meets, agrees to, and accepts items 1 through 4 detailed on page C-1 of the "Signature Page." Offeror further agrees to be bound by this proposal for a minimum of 180 days from the date the RFP was issued.

SIGNED BY: _____

Name (print): _____

Title: _____

Date: _____

**RETURN *ELECTRONIC COPY* OF THIS FORM TOGETHER WITH THE COMPLETE
PROPOSAL BY 5PM EST, 2/18/2011 TO:
PERANM.2011.TM@rvkuhns.com**

**SUBSEQUENTLY, RETURN *ORIGINAL, SIGNED* FORM TO:
R.V. Kuhns & Associates, Inc.
One Penn Plaza, Suite 2128
New York, NY 10119
Attention: Jonathan Kowolik
Re: PERA TM RFP**

TRANSITION MANAGEMENT SERVICES

Required Additional Submission:

Exhibit 1 – PERANM TM RFP Quantitative Summary (MS Excel Format)

A. Organization Background, Experience and Stability

1. Please affirm that you have provided a complete and accurate response to the Exhibit titled PERANM TM RFP Quantitative Summary in MS Excel format and submitted a copy in electronic format with your e-mailed RFP response and/or hard copy format with your finalist RFP response submission (as applicable).
2. Explicitly document how you meet or exceed the minimum organizational experience-related qualifications for this RFP:
 - a. Number of Years of Experience Transitioning Assets for Institutional Clients
 - b. Assets Transitioned in the last twelve months (January 1, 2010 to December 31, 2010)
 - c. Largest US Large Cap Equity Transition in last twelve months (January 1, 2010 to December 31, 2010)
 - d. Largest US Small Cap Equity Transition in last twelve months (January 1, 2010 to December 31, 2010)
 - e. Largest Non-US Equity Large Cap Transition in last twelve months (January 1, 2010 to December 31, 2010)
 - f. Largest US Fixed Income Transition in last twelve months (January 1, 2010 to December 31, 2010)
 - g. Largest Global Fixed Income Transition in last twelve months (January 1, 2010 to December 31, 2010)
3. Please provide a brief history of your transition management service.
4. Please describe the ownership and organizational structure of your firm, including any parent, subsidiary and affiliate companies. Please note if any employees of the transition management company are dual employees of any of the aforementioned organizations.
 - a. if an affiliate, designate percent of parent firm's total revenue generated by your organization,
 - b. if the firm is a joint venture partner, identify the percentage of ownership and revenues recognized by each partner to the combined association
5. Provide an organizational chart diagramming the relationships between the professional staff as well as the reporting line with any parents, subsidiaries, and/or affiliates.
6. Is your firm willing to accept a global fiduciary role with respect to the client's assets during transitions in all parent, subsidiary, and affiliate companies during the transition?

7. How does the transition management business fit into any related trading and/or consulting services provided by your firm or any of the affiliated organizations?
8. Clearly describe all sources of revenue (both explicit and implicit) that your firm derives from trading activities related to the assets of transition management clients. If necessary, break out descriptions by asset classes or trading venues utilized.
9. How is your transition management organization staffed? Are all relationship management, project management, trading, and operations/reconciliation professionals within a central group? Describe fully.
10. If your staffing model relies upon external or affiliated resources, discuss how coordination of resources is performed and how a TM client can be assured of receiving appropriate attention and dedication of resources.
11. Please provide any details of any changes to senior management over the last 3 years (both hires and departures). Are there any changes pending?
12. Please provide an organizational chart featuring all of the individuals involved in the transition management operations. Clearly indicate the reporting relationship(s) between the respondent and any parent, subsidiary, affiliate, or joint venture entities.
13. Indicate when and why any senior personnel left or joined the firm in the last five years. In which segments were they involved? (For personnel who have left indicate job titles and years with the firm and who replaced them).
14. Please describe how your transition business has grown over the last five years. Please include references to the number of transitions in each year as well as changes made to your operations (staff, technology, etc).
15. How are you structured to provide transition management and why is this structure beneficial to clients? Please specify and discuss all that applies, such as: brokerage affiliate, stand alone agency, introducing broker, asset (index) management affiliate, custody affiliate, principal only.
16. Over the past five years, has your organization or any of its affiliates or parent, or any officer or principal been involved in any business litigation, regulatory or legal proceedings? If so, provide an explanation and indicate the current status.
17. Please provide the details on the financial condition of your firm. Most recent annual reports filed with the SEC will be acceptable, but any recent material changes should be included. This is not a minimum requirement, but preference will be given to those managers that include this information.

18. List the insurance carriers supplying the coverage for SEC-required (17g-1) fidelity bonds, errors and omissions coverage and any other fiduciary coverage which your firm carries.
19. Which of your firm's offices would service this account?
20. Will you name a dedicated contact for opportunities resulting out of this contract?
21. What services would specifically be provided by the offices listed and this individual?
22. Provide at least three references of similarly situated public funds that are currently utilizing your transition management services. **Note that references will not be contacted unless your firm is designated as a Finalist.**

B. Methodology

23. Describe your methodology and philosophy regarding transition management?
24. What does your firm believe are its core competencies relative to other competitors in the transition management space?
25. How do you determine the optimal trade-off between market impact and opportunity cost?
26. How do you manage the risk factors and costs associated with transitions? In your response, please address both financial risks (i.e., poor execution, implementation shortfall, timing, market impact, asset allocation exposure and others) and operational risks (i.e., incorrect order execution, delivery failures, custody interface and others).
27. How do you maintain market/currency exposure for a specific asset class within the confines of the asset allocation strategy of a client? Please describe in detail the use of exchange traded futures, ETFs, and any other strategy employed.
28. What are the multiple sources of liquidity that you tap for all asset classes? Which of these sources are proprietary liquidity sources and which do you access as a market participant.
29. Please list ALL available trading platforms/market access routes/networks you have access too.
30. Describe any business or trading relationships your transition management business has with hedge funds?
31. Describe the quantitative tools your firm uses to evaluate/optimize trading for transitions. Please be as specific as possible.
32. What is your position on performance guarantees at a certain level of implementation shortfall or explicit cost? Do you offer them? Why? Why not?

33. Discuss the approach your firm uses to develop a pre-trade cost estimate:
 - a. What information do you need to prepare an accurate pre-trade?
 - b. What system(s) do you use to develop your pre-trade estimate?
 - c. How do you determine the assets that will be crossed internally via DOL crossing (if used)?
 - d. How do you determine the assets that will be crossed internally with other transition management flow (if used)?
 - e. How do you determine the assets that will be crossed externally and the venues to be used (if used)?
 - f. How do you determine the assets that will be traded in the market and the venues to be used (if used)?
34. Discuss your calculation of the estimated bid/ask spread costs involved in transitions, clearly defining all assumptions and methodologies.
35. Discuss your calculation of the estimated market impact costs involved in transitions, clearly defining all assumptions and methodologies.
36. Discuss your calculation of the estimated opportunity cost involved with transitions, clearly defining all assumptions and methodologies.
37. Do you measure the accuracy of your pre-trade estimates versus actual results? What information can you share with us to support the accuracy of your estimation process?
38. What other related services do you offer? Please specifically address the following:
 - a. Interim Account Management Services
 - b. Overlay and Cash Equitization Services
 - c. Others

C. Operations and Execution

39. Do you require brokerage execution through an affiliated party or parties? Discuss and if so, please list the various conflicts this situation may create and explain how you assure client orders are given best execution in regards to timing and price.
40. Describe your process for broker selection and discuss any relationships (formal or informal) that are maintained with brokers (incentive structures, discounted execution agreements, or other).
41. Please describe your approach to the actual transition execution, including how you manage cash flows associated with trading, significant price movements, partial completions, residual holdings, etc.
42. Are there any operational services normally provided by a delegated investment manager that your firm cannot provide? Explicitly address the following:
 - a. Corporate Action Response

- b. Proxy Response
 - c. Other Duties
43. If you have identified areas of service that are normally provided by a delegated investment manager that your firm cannot provide, explicitly detail how your firm will support the ongoing investment operations of the account during the transition period.
 44. Do you have dedicated resources to interface with custodians and investment managers? Discuss all aspects of such resources (if any) and why the firm does/does not maintain such resources.
 45. Does your firm internalize transition management order flow to create internal crossing with other transition clients? If so, please list the various conflicts this situation may create and explain how you assure client orders are given best execution in regards to timing and price.
 46. Please specify what you define as internal and external crossing. How are the crossed trades priced? What counterparties and venues do you use for external crossing? Do you have the appropriate Department of Labor exemption to conduct crossing?
 47. Do you charge a commission or include any implied costs for the various forms of crossing provided to clients? Explain and detail all applicable forms.
 48. Describe your firm's ability to provide shortened settlements on security transactions. What rates do you utilize for such activities and document how such services (if provided) would be transparently provided to a client.
 49. Describe your firm's ability to provide for the purchase of exchange traded futures contracts and exposures. What additional relationship complexity does this mechanism of exposure management provide (clearing relationships, etc.). What rates do you utilize for such activities and how do you document that such services (if provided) are transparently provided to a client.
 50. Describe in detail how the FX trades associated with non-US portfolios are executed.
 51. Do you have a preferred timing for executing FX necessary to complete a transition? (e.g. trading significant majority of non-restricted FX on the implementation shortfall benchmark or in-line with transition trading, etc.) Why do you execute FX in this manner?
 52. Describe the analytics that are used to assess the quality of the FX trades. Do you provide a post-trade report that details executions relative to an objective benchmark fixing rate? Provide a detailed discussion and any limitations to your benchmarking process.
 53. How do you ensure best execution and reasonable costs when executing FX for clients?
 54. Do you provide agency-only execution for FX trading?

55. Do you charge a commission or include any implied costs for FX trading? If agency commission rates apply, what commission rate would you charge us for FX trading?

D. Reporting

56. If selected, would you be willing (and potentially customize reports) to report under a specific method (such as implementation shortfall, T-Standard, VWAP, etc...) established by the client for the purpose of calculating explicit and implicit costs?
57. What reporting do you provide on a final pre-trade basis (i.e. before the open on trade date 1)?
58. What reporting do you provide during the process of a transition?
59. Do you provide online reporting access to clients and other interested parties to monitor trading execution?
60. What reporting do you provide following the completion of a transition, and with what timeline?
61. How do you measure your effectiveness after the transition? Please describe and provide your measurement methodologies for Pre-, Intra- and Post Transition Activity.
62. Do you calculate transition performance based upon the T-Standard? What limitations – practical, philosophical, or technical – make this a preferred or non-preferred benchmark methodology?

E. Disclosures / Conflicts of Interest

63. Will your firm act as a fiduciary for transition activities? Has your firm served in this capacity in the past?
64. If your firm is not able to provide transitions in this capacity, are you willing to sign an attestation letter stating that you will act as a fiduciary acting in the client's best interest, not engaging in any activity that is a conflict to that interest? This will also include a duty to provide full and fair disclosure with no intent to mislead the client.
65. Will your firm sign an attestation that your firm's only sources of material benefit resulting from this transition will be from commissions or fees explicitly accounted for?
66. If acting on an agency basis, will you sign an attestation that you will act on an agency capacity at a firm level for security and currency transaction, which would include transactions booked to the client on an agency basis and any inter-company or affiliated transactions of the transition provider firm will also be conducted on an agency basis?

67. Upon request, will you provide date and time stamped individual printed data, where available, for all security and currency transactions?
68. Will you sign an attestation committing to disclose all sources of revenue generated by your firm and/or affiliates in conjunction with the use of, or transactions in the assets of a plan? These revenues would include and not be limited to the following:
- a. Commissions generated by your firm and affiliates from the counterparties of the plan's transactions, both in terms of the cumulative amount (as a % of notional value) of activity crossed internally and the average commission level generated from such transactions.
 - b. Realized profit/loss at the culmination of the transition event, including affiliates', as a result of securities and/or currency transactions affected in a principal capacity.
 - c. Unrealized profit/loss, including affiliates', as a result of securities and/or currency transactions affected in a principal capacity. The mark-to-market for these open positions shall be as of the close of the day of the last transaction of the transition event.
 - d. Potential revenue sharing agreements and/or payment for order flow agreements with affiliates and/or outside parties.
 - e. All revenue generated directly or indirectly as a result of transitions events.
69. Does your firm receive any economic benefit other than what is explicitly quoted as a fee for transition services? Please disclose all such means for economic benefit in addition to the quoted fee and quoted commission charges.
70. Please disclose any and all sources of compensation and/or cost reductions to your firm that reasonably could be anticipated as a result of this contract.
71. In relation to any FX transactions, please disclose any and all sources of revenue to your firm or any of its affiliates.
72. Does your firm or an affiliate have a company or proprietary account in which you may be the other side of a given transaction? If so, what safeguards can you describe that ensure you are placing the goals of your client ahead of your firm's capability to book revenue in this manner?
73. Please describe any potential (real or perceived) conflict of interest between the transition team and other affiliated departments or businesses within your organization.
74. Does the firm have any brokerage relationships with other entities outside of a transition management context? If so, in what capacity? Are the revenues associated with these non-transition management relationships significant relative to the scope of your transition management revenues? Does this create any conflicts of interest and if so how are they managed within your firm?

75. Are you an Agency or Principal broker? Please describe how any conflicts of interest that may arise from trading securities for your various clients are dealt with.

F. Requested Additional Documentation

76. Please provide a complete set of sample reports for Pre-, Intra- and Post- Transition Activity. Provide samples for domestic equity, global equity and global fixed income.
77. Please provide a marked version (contemplating any and all changes sought) to the transition management contract provided as Appendix F to this RFP.
78. Please provide copies of any Department of Labor prohibited transaction exemption letters that may apply to your services.
79. Please provide any other copies of disclosure statements and informational attachments that would be required to be included in a contract executed with your firm.

WARRANTIES

TRANSITION MANAGEMENT SERVICES

Offeror agrees to the incorporation of the following warranties in any contract entered into with PERA:

- A. Offeror warrants that during the performance of all services under the contract as contemplated it will act as a fiduciary to the Trustees of the Public Employees Retirement Association of the State of New Mexico. To the extent that Offeror believes that it is in the best interests of the Public Employees Retirement Association of the State of New Mexico to execute a transaction in a principal counterparty (i.e. non-Fiduciary) capacity, Offeror will obtain prior written authorization from PERA for each such transaction and each request for authorization shall be accompanied by verifiable representation in written format from Offeror that the terms offered are at least as favorable as those generally available in arms-length transactions between unrelated parties.
- B. Offeror warrants that it meets or will meet before the award of a contract the bonding requirement provided by Section 412 of the Employment Retirement Income Security Act of 1974 (ERISA) or that it carries at least an equivalent fidelity bond applicable to Contractor's actions under the Contract (unless exempt, and explanation of exemption is attached).
- C. Offeror warrants that it will not delegate its fiduciary responsibilities assumed pursuant to the Contract.
- D. Offeror warrants that it has completed, obtained, and performed all registrations, filings, approvals, authorizations, consents or examinations, required by a government or governmental authority, including the State of New Mexico, for acts contemplated by the Contract.

Rule 300: Investment Policies and Practices

TITLE 2 PUBLIC FINANCE
CHAPTER 80 PUBLIC EMPLOYEES RETIREMENT
PART 300 INVESTMENT POLICIES AND PRACTICES

2.80.300.1 ISSUING AGENCY: Public Employees Retirement Association, P. O. Box 2123,
Santa Fe, New Mexico 87504-2123
[10-15-97; 2.80.300.1 NMAC – Rn, 2 NMAC 80.300.1, 12-28-00]

2.80.300.2 SCOPE: This rule applies to the Public Employees Retirement Board and its
investment managers and brokerage firms.
[10-15-97; 2.80.300.2 NMAC – Rn, 2 NMAC 80.300.2, 12-28-00]

2.80.300.3 STATUTORY AUTHORITY: This rule is authorized by NMSA 1978, Sections
10-1-130, 10-11-132 and 10-11-133, as amended.
[10-15-97; 2.80.300.3 NMAC – Rn, 2 NMAC 80.300.3, 12-28-00]

2.80.300.4 DURATION: Permanent.
[10-15-97; 2.80.300.4 NMAC – Rn, 2 NMAC 80.300.4, 12-28-00]

2.80.300.5 EFFECTIVE DATE: May 4, 1994 unless a different date is cited at the end of a
Section.
[10-15-97; 2.80.300.5 NMAC – Rn, 2 NMAC 80.300.5, 12-28-00]

2.80.300.6 OBJECTIVE: The objective of this rule is to set the Public Employees Retirement
Board's investment policy for investments of funds under NMSA 1978, Sections 10-11-132 and
10-11-133, as amended.
[10-15-97; 2.80.300.6 NMAC – A, 2 NMAC 80.300.6, 12-28-00; A, 8-15-01]

2.80.300.7 DEFINITIONS: [Reserved]
[2.80.300.7 NMAC – A, 2 NMAC 80.300.7, 12-28-00]

2.80.300.8-9 [Reserved]

2.80.300.10 INVESTMENT COMMITTEE: [Reserved]
[2.80.300.10 NMAC – A, 2 NMAC 80.300.10, 12-28-00]

2.80.300.11-19 [Reserved]

2.80.300.20 MANAGEMENT AND PHILOSOPHY: [Reserved]

[2.80.300.20 NMAC – A, 2 NMAC 80.300.20, 12-28-00]

2.80.300.21-29[Reserved]

2.80.300.30 BEST EXECUTION AND BEST PRICE

A. **Statement of Policy:** The New Mexico Public Employees Retirement Board adopts the following statement as its policy with respect to securities transactions of the PERA investment funds.

(1) The Board serves as trustee of the retirement funds created under the Public Employees Retirement Act, NMSA 1978, Section 10-11-1 et seq.; the Judicial Retirement Act, NMSA 1978, Section 10-12B-1 et seq.; the Magistrate Retirement Act, NMSA 1978, Section 10-12C-1 et seq.; and the Volunteer Firefighters Retirement Act, NMSA 1978, Section 10-11A-1 et seq.

(2) As trustee of these funds, the Board has a fiduciary responsibility to invest these funds solely in the interest of participants and beneficiaries and exclusively to provide benefits to these participants and beneficiaries and to pay reasonable administrative costs. The Board also has a fiduciary obligation to give primacy to the preservation of trust funds and to insure the procurement of a reasonable income while avoiding undue investment risks.

(3) The Board has delegated the investment of the funds under its jurisdiction to external investment managers except for a small number of accounts that are invested directly by the PERA Investment Division.

(4) By contractual agreement, the Board has delegated to its investment managers full discretion with regard to securities transactions so long as they conform to New Mexico State statutes, the PERA Investment Policy and the specific PERA investment objectives and guidelines for each particular investment portfolio.

(5) Both by contract and by virtue of common law trust principles, the investment managers serve as fiduciaries to PERA and must at all times act in a fiduciary capacity to PERA and the investment accounts assigned to them.

(6) As fiduciaries of the funds, both the Board and its investment managers are obligated to require that all securities transactions be made on the basis of best execution under the circumstances at the lowest available price.

(7) The Board's policy is that all securities transactions shall be executed on the basis of best execution under the circumstances at the lowest available price and that all investment decisions shall be made solely for the benefit of fund participants and their beneficiaries.

B. [Reserved]

[10-15-97; 2.80.300.30 NMAC – A, 2 NMAC 80.300.30, 12-28-00; A, 8-15-01]

HISTORY of 2.80.300 NMAC:

Pre-NMAC History: The material in this Part was derived from the previously filed with the State Records Center & Archives under: Rule 300.00, Investment Policies and Practices, filed on 10-4-79; PERA Rule 300.00, Investment Policies and Practices, filed on 11-19-81; PERA Rule 300, Investment Policies and Practices, filed on 7-1-91; PERA Rule 300, Investment Policies and Practices, filed on 5-4-94.

THE PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

INVESTMENT POLICY

INTRODUCTION

A. STATUTORY AUTHORITY

The Public Employees Retirement Association of New Mexico (PERA), created by law in 1947, is the entity established for the purpose of administering the provisions of the Public Employees Retirement Act of New Mexico, NMSA 1978, Sections 10-11-1 to 10-11-142, as amended, the Volunteer Firefighters Retirement Act, NMSA 1978, Sections 10-11A-1 to 10-11A-7, as amended, the Judicial Retirement Act, NMSA 1978, Sections 10-12B-1 to 10-12B-19, as amended, the Magistrate Retirement Act, NMSA 1978, Sections 10-12C-1 to 10-12C-18, as amended, and the Public Employees Reciprocity Act, NMSA 1978, Sections 10-13A-1 to 10-13A-4, Section 10-11-133.1, as amended, as well as other federal and State laws relating to the public employees retirement system in the State of New Mexico. As of March 2010, PERA administers thirty-one retirement plans covering state employees, municipal employees, county employees, police, firefighters, judges, magistrates, and legislators.

B. STANDARDS OF CARE

Uniform Prudent Investor Act

The Uniform Prudent Investor Act (UPIA) [45-7-601 to 45-7-612 NMSA 1978] and Section 10-11-132 NMSA, 1978 govern NM PERA investments. In summary, the UPIA states that all persons responsible in making investment decisions for the Public Employees Retirement Fund (Fund) shall exercise the care, skill, prudence and diligence under the circumstances then prevailing that a prudent investor acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. Investments are to be diversified so as to minimize the risk of large losses, unless under the circumstances, it is clearly prudent not to do so.

The statutes are the foundation for the PERA Policy. The Board adopts the following guiding principles for investment activity:

1. Preserve the long-term principal of the Fund.
2. Maximize total return within prudent risk parameters.
3. Act in the exclusive interest of PERA members, retirees and beneficiaries.

C. ETHICS AND CONFLICTS OF INTEREST

Trustees and Staff involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment

program, or that could impair their ability to make impartial decisions as addressed in Section III of the Board Policy and Procedures.

STATEMENT OF PURPOSE

A. MISSION STATEMENT

Public Employees Retirement Association of New Mexico (PERA) is governed by the Public Employees Retirement Board (Board). The Board has a fiduciary responsibility to the Retirement Fund's (Fund) members, retirees and beneficiaries. To acknowledge this responsibility, the Board has accepted the following as their Mission Statement:

The mission of the Board of the Public Employees Retirement Association is to preserve, protect, and administer the trust to meet its current and future obligations and provide quality services to Association members.

B. PURPOSE OF THE INVESTMENT POLICY

The purpose of the Investment Policy (Policy) is to delineate the investment philosophy, objectives, guidelines and practices of PERA and has been developed as a reference point for the management of PERA's assets. The Policy is intended to capture investment opportunities while providing parameters that ensure prudence and care in the execution of the investment program. No investment or action pursuant to an investment may be taken unless permitted by this Policy or by action of the Board. Deviation from this Policy is not permitted without explicit written permission from the Board.

The Policy provides guidance for fiduciaries which include PERA's Board, Staff, investment consultants, investment managers, and custodians. It is the intent of the Policy to provide the foundation for management of the PERA's assets in a prudent manner including the standards and disciplines by which the Board can evaluate of Staff, investment consultants, investment managers and custodians.

INVESTMENT PHILOSOPHY

A. PRIMARY OBJECTIVE

The Fund's primary objective is to prudently invest assets in order to meet statutory obligations to its members. The Funds' assets will be managed in a manner that reflects both the Funds' unique liabilities and funding resources, incorporating accepted investment theory, prudent levels of risk and reliable, empirical evidence. Specifically, the Board has adopted the following principles:

- Strategic asset allocation is the most significant factor influencing long-term investment performance and asset volatility. The asset allocation targets adopted by the Board shall adhere to the guidelines contained in this Policy.

- Risk is an unavoidable component of investing and is a major factor that shall be taken into account in assessing investment policy and strategy. In evaluating specific investments, both the risks associated with that investment as well as the impact of the investment to the overall portfolio shall be considered.
- Diversification both by and within asset classes is the Fund's primary risk control element. Other risk control measures shall be implemented where appropriate.
- The Fund's liabilities are long term and the investment strategy must therefore be long-term in nature.
- Sufficient liquidity will be maintained to meet the anticipated cash flow requirements of the Fund.

B. RETURN

In order to meet the Fund's objective, the Board strives to achieve the highest level of investment performance that is compatible with its risk tolerance and prudent investment practices. Due to the long-term nature of the PERA's pension obligations and the inherent risks in short-term tactical investing, the Board must maintain a long-term perspective in formulating and implementing its investment policies, and in evaluating its investment performance. As such, the Board: (1) seeks to adopt a long-term rate of return goal commensurate with the actuarial assumed rate of return, (2) adopts an allocation policy that seeks to meet the rate of return goal over long periods of time, while minimizing volatility (risk) and (3) strives to minimize the costs associated with implementation of the asset allocation through efficient use of internal and/or external resources.

Investment performance is measured by three integrated long-term objectives in the following order of importance:

1. The actuarial assumed target rate of return is the key actuarial assumption affecting future funding rates and payment of pension obligations. Investment performance that exceeds or underperforms the target rate may materially impact future funding rates. The Board seeks to have long term investment performance that will reasonably exceed its actuarial assumed rate of return.
2. The Policy benchmark is calculated by applying the investment performance of the asset class benchmarks to the Fund's asset allocation targets. The Policy benchmark permits the Board to compare the Fund's actual performance to a total fund benchmark (*Section VII. A. Performance Benchmarks, Total Fund Benchmark*) and to measure the contribution of active investment management and policy adherence.
3. While the Board recognizes that other funds may have investment objectives and risk tolerances that differ substantially from PERA's, the Board will compare its total fund

performance to appropriate public plan sponsor comparison universes. A universe comparison permits the Board to compare its performance to large statewide public and other pension plans.

C. RISK

The investment risk philosophy for the Fund is based on the precepts of capital market theory that are generally accepted and followed by institutional investors, who by definition are long-term oriented investors. This philosophy holds that:

1. Increasing risk is rewarded with compensating returns over time and, therefore, prudent risk taking is a necessary element of long term investing.
2. Risk can be mitigated through diversification of asset classes and investment approaches, as well as diversification of individual securities.
3. The primary determinant of long-term investment performance is the strategic or long-term allocation of assets among various asset classes.
4. Relative performance of various asset classes is unpredictable in the short term and attempts to shift tactically between asset classes or implementation strategies are unlikely to be rewarded.

Given these principles, the Board has established a long-term asset allocation policy that balances the returns intended to fund PERA's objectives and the risk level that is appropriate under existing and anticipated circumstances. In determining the returns sought, the Board takes into account the benefit levels and structure of the plans supported by the Fund. The Board will periodically conduct an asset/liability study to determine the extent to which the long-term asset allocation is consistent with the liabilities of the retirement plans. In determining what the Board believes is a prudent level of risk assumed in pursuit of those returns, the Board will consider total fund risk, the Fund's expected volatility, liquidity, and general sensitivity to the overall asset allocation and to equity, bond and other major assets classes utilized by the Fund. The Board will regularly measure and monitor Fund risks in its management of the Fund.

Investments shall be made to preserve and protect the long term investment results and benefits of the Fund.

D. DIVERSIFICATION

In order to achieve the actuarial assumed rate of return, the Board will rely on an investment strategy utilizing an appropriate long-term, diversified asset allocation model. Diversification distributes a portfolio across many investments to avoid excessive exposure to any one source of risk. Investors generally diversify their portfolios along the following lines: asset classifications (stocks, bonds, real estate, real assets, hedge funds, private equity, short-term investments, etc.), geography, industries, and maturity sectors. Other considerations in asset allocation modeling

should take into account the purpose of the Fund, the size and financial condition of the Fund, and general business conditions. The factors mentioned here are not intended to be limiting; rather, they are outlined as a general indication of the importance of diversification to proper asset allocation. Under such an allocation, PERA's assets may be invested by some combination of active and passive managers. The Board will determine the proper allocation among asset classes and investment managers, based on advice and analysis provided by Staff and/or Consultants.

ROLES AND RESPONSIBILITIES / DELEGATION OF AUTHORITY

The Board relies on both internal Staff and external contractors in order to properly administer the Fund and implement its investment strategies. Because of the number of parties involved, their roles as fiduciaries must be clearly identified. Such identification increases operational efficiency, ensures clear lines of responsibility, and reduces or eliminates duplication of effort.

A. BOARD OF TRUSTEES

The primary fiduciary responsibility of the Board is to ensure prudent investment and expenditure of the Fund's assets. It is the responsibility of the Board to administer the investments of PERA at reasonable cost, being careful to avoid diminishing quality. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs and other administrative costs chargeable to PERA. The Board shall operate the investment program in compliance with all applicable federal and State laws and regulations concerning the investment of pension assets. The Board is responsible for establishing and maintaining all policies and guidelines by which the Fund is managed, and by which the Board operates. The Board shall meet to execute its duties on a quarterly basis or more frequently if appropriate.

B. INVESTMENT COMMITTEE

To assist the Board in carrying out its duties, it has established an Investment Committee (Committee).

Through New Mexico Administrative Code Rules (NMAC), the Board establishes the Committee and the Board Chair appoints the members of the Committee as well as the Committee Chair. The Committee makes recommendations to the Board on investment actions including, but not limited to: all Board approved policies related to the investment program including investment policy, re-balancing, and manager hiring, monitoring and termination; asset allocation targets and ranges; asset class structure; performance benchmarks; securities lending program; commission recapture and trade cost analysis; investment manager relationships; and consulting relationships.

The Committee meets prior to the regular meeting of the Board to address overall investment activities. Staff and Consultant(s) brief the Committee on any topics or issues pertinent to PERA's investment operations, and make recommendations to the Committee for appropriate courses of action. The Committee Chair shall have the duty and the authority to set Committee meeting agenda and request specific analysis and reports from the Staff and Consultants.

C. EXECUTIVE DIRECTOR

The Executive Director (Director) is appointed by, and serves at the pleasure of the Board. The Director is responsible for planning, organizing, and administering the operations of PERA under broad policy guidance and direction from the Board. The Director, with assistance of Staff (his/her designee), monitors the performance of the investment portfolio; ensures that funds are invested in accordance with Board policies; communicates with the Board, its Officers and Committee Chairs; studies, recommends, and implements policy and operational procedures that will enhance the investment program of PERA; and ensures that proper internal controls are developed to safeguard the assets of PERA. In fulfilling these investment responsibilities, the Director relies heavily on the Investment Staff and Consultant(s).

D. CHIEF INVESTMENT OFFICER AND INVESTMENT STAFF

The Internal Investment Staff (Staff) reports directly to the Chief Investment Officer (CIO) who in turn reports to the Director. The CIO has primary responsibility for the implementation of the investment program. The CIO, with the assistance of Staff, has the responsibility and authority to assist the Board and its committees in establishing investment and administrative policy, to implement the policies and programs established by the Board, to report to the Board and Legislature on the status of the Fund and the operations of PERA, and to carry out such other duties the Board or Committee shall delegate to him/her.

The Staff exercises the same fiduciary responsibility under applicable law as the Board. The CIO and the Staff shall manage the portfolio according to the Board's policies, advise and inform the Board about investments, assist with development and review of investment policies and procedures, report on the progress of the Fund in meeting its investment objectives, and compare the performance of the portfolio to established benchmarks.

E. GENERAL COUNSEL AND OFFICE OF GENERAL COUNSEL STAFF

The internal Office of General Counsel staff (OGC staff) reports directly to the General Counsel who in turn reports directly to the Director. The General Counsel is primarily responsible for legal compliance of the investment program and advises the Board on investment-related legal matters. The General Counsel, with the assistance of OGC staff, coordinates legal due diligence by external legal counsel for alternative investments, including transactional, regulatory and federal tax matters. OGC staff exercise the same fiduciary responsibility under applicable law as the Board.

F. INVESTMENT CONSULTANT(S)

The Consultant(s) is hired by the Board, reports directly to the Board and is directly accountable to the Board. The Board may elect to retain one or more Consultants that specialize in specific areas of asset consulting. Investment Consultants agree to indemnify PERA as fiduciaries as provided in their Professional Services Agreement and will discharge their duties with respect to

this Fund solely in the interest of the PERA membership and benefit recipients with the care, skill, prudence, and diligence under the circumstances then prevailing.

The Consultant's duty is to work with the Board, Committee and its Chair, and Staff in the management of the investment process. This includes regular meetings with the Board to provide an independent perspective on the Fund's goals, structure, performance and managers. In the course of the Consultant's normal functions, the Consultant will work directly with the Staff to review asset allocations and performance, and make recommendations to the Board as appropriate. The Consultant will assist Staff and the Committee with external investment manager selection and will promptly inform PERA and discuss the impact of material changes taking place within any current Manager's organization or investment process.

Relative to alternative investments, the Board may utilize the Consultant as a gatekeeper with discretionary authority and fiduciary responsibility for due diligence and investment recommendations.

G. EXTERNAL INVESTMENT MANAGERS

The external Investment Managers (Managers) are selected by, and serve at the pleasure of, the Board. Each investment manager shall be a registered adviser under the Investment Advisers Act of 1940 (or appropriately exempt from registration) and operate under a formal contract that sets investment guidelines and administrative requirements and defines responsibilities and performance expectations for management of each mandate. Full discretion, consistent with this policy and contractual guidelines, is granted to all investment managers. Managers will provide performance reporting to the Staff utilizing standardized reporting formats and at intervals specified by Staff.

H. EXTERNAL LEGAL COUNSEL

Outside Legal Counsel agree to indemnify PERA as fiduciaries as provided in their Professional Services Agreement and discharge their duties with respect to this fund solely in the interests of the PERA membership and benefit recipients with the care, skill, prudence and diligence under the circumstances prevailing. Qualified Legal Counsel include those professionals with the background, expertise and demonstrated success as legal counsel for public funds and large institutional clients regarding alternative investments, including, but not limited to, private equity, hedge funds, real estate and real assets.

ASSET ALLOCATION

A. STRATEGIC ASSET ALLOCATION TARGETS

The Board recognizes that over the long-term, asset allocation is the single greatest determinant of return and risk to the Fund. The Fund's asset allocation policy is intended to reflect, and be consistent with, the return objective and risk tolerance expressed in this Policy. It is designed to provide the highest probability of meeting or exceeding the Fund's objectives at a controlled

level of risk that is acceptable to the Board. In establishing its risk tolerance, the Board will consider its ability to withstand short- and intermediate-term volatility in investment performance and fluctuations in financial condition of the Fund. In determining the appropriate strategic allocation among these asset classes, the Board, with assistance from Staff and Consultants will examine the historical and projected risk and return of the approved asset classes as well as the correlation among these asset classes. The Board will also consider the expected effect of investment performance on the obligations of the Fund. Based on its determination of the appropriate risk tolerance for PERA, and its long-term return expectations, the Board has chosen the following Strategic Asset Allocation Target:

Asset Class	Strategic Asset Allocation Target
Domestic Equity	27.0%
International Equity	27.0%
Fixed Income	26.0%
Private Equity	5.0%
Absolute Return	9.0%
Real Estate	3.0%
Real Assets	3.0%

The target allocation will be reviewed annually for reasonableness relative to significant economic and market changes or to changes in the Fund’s long-term goals and objectives. A formal asset allocation study should be conducted at least every three years to verify or amend the targets. Recognizing that the long-term target allocation to alternative asset classes may take several years to implement prudently, the Board will work with Staff and Consultants to set interim asset allocation targets and alternative asset funding guidelines to be utilized until the alternative asset classes are fully funded.

B. RE-BALANCING STRATEGY

Re-balancing is the term that describes the periodic movement of funds from one asset or asset class to another for the purpose of realigning the assets with the asset allocation target. A re-balancing strategy is an important element of asset allocation policy.

The Board has chosen to adopt a re-balancing policy that is governed by allocation ranges rather than time periods. Upper and lower allocation limits have been established for each asset class. The ranges, specified in the table below, are a function of the volatility of each asset class and the proportion of the total fund allocated to the asset class. Staff reviews the Fund’s allocation on an ongoing basis. When the allocation to all asset classes remains within these limits, Staff will use cash flow to maintain the overall allocation as close as possible to the target.

Strategic Asset Allocation and Re-Balancing Ranges

Asset Class	Lower Limit	Strategic Asset Allocation Target	Upper Limit
Domestic Equity	22.0%	27.0%	32.0%
International	22.0%	27.0%	32.0%

Equity			
Fixed Income	23.0%	26.0%	29.0%
Private Equity	3.0%	5.0%	7.0%
Absolute Return	7.0%	9.0%	11.0%
Real Estate	1.0%	3.0%	5.0%
Real Assets	1.0%	3.0%	5.0%

When any one of the public market asset classes breaches an upper or lower limit, the asset class will be re-balanced to within its strategic asset allocation target range within ninety (90) days. Recognizing that it may be impractical or costly to reallocate illiquid alternative assets, if an alternative asset class breaches an upper or lower limit, the asset class will be re-balanced to within its strategic asset allocation range as soon as is practically possible, subject to reasonable transaction costs. The Board has authorized the CIO and Staff to re-balance the portfolio in accordance with policy guidelines on an on-going basis. The goal in implementing the re-balancing policy is to minimize transaction costs, market impact, and opportunity costs. Staff will prioritize the re-balancing strategies and methods employed based on the circumstances at the time, and Staff will report the results of re-balancing activity to the Committee and the Board at the next regular meeting. Staff will review the current and target allocations with the Committee and Board on a monthly basis.

The Board reserves to itself the authority to suspend or otherwise delay its basic re-balancing policy. Such action shall require approval by a majority of the Board members present at the time of the voting and must be reaffirmed via the same process quarterly. Absent reaffirmation, the Board's re-balancing policy will be automatically reinstated.

PERFORMANCE BENCHMARKS

A. TOTAL FUND BENCHMARK

As stated in *Section III. Investment Objectives*, an important return objective to be considered when evaluating the Fund's performance is measured by applying the investment performance of the asset class benchmarks to the Fund's Strategic Asset Allocation target (Policy Index). The Policy Index permits the Board to compare the Fund's actual performance to its total fund benchmark, and to measure the contribution of active investment management and policy adherence.

The Board has selected the following Policy Index:

Asset Class	Policy Index	Strategic Asset Allocation Target
Domestic Equity	Russell 3000 Index	27.0%
International Equity	MSCI All Country Ex US Index	27.0%
Fixed Income	Barclay Capital Aggregate Index	26.0%

Private Equity ¹	Actual Private Equity Performance through 2014, Venture Economics Pooled IRR thereafter	5.0%
Absolute Return ²	HFRI Fund-of-Funds Index	9.0%
Real Estate	75% NCREIF Property Index +3%, 25% NAREIT	3.0%
Real Assets ³	75% Cliffwater Private Energy Index, 25% S&P GSCI Light Energy Index	3.0%

¹The Russell 3000 Index + 3% is also an appropriate long-term benchmark.

²LIBOR + 4% is also an appropriate long-term benchmark

³CPI + 6% is also an appropriate long-term benchmark. The Cliffwater Private Energy Index is a peer universe of private energy funds.

Recognizing that a long-term target allocation to alternative asset classes can often take a matter of years to implement prudently, the Board will also review an Interim Policy benchmark which will be adjusted as PERA makes progress towards its long-term strategic asset allocation target.

B. MANDATE-LEVEL BENCHMARKS

Individual managers will be evaluated using the following standards:

1. Against appropriate market indices on a nominal and risk-adjusted basis;
2. Against peers within their style group;
3. Based on adherence to their stated investment philosophy and style; and
4. Based on adherence to this Policy and the guidelines established in their contract.

Specific performance criteria for each sub-asset class are outlined as follows. Not all sub-asset classes will necessarily be in place at one time and exceptions may apply to the benchmarks stated below as detailed in the investment manager's PSA:

Sub-Asset Class	Index	Peer Universe
Domestic Large Cap Value Equity	Russell 1000 Value Index	US Value Large Cap Equity
Domestic Large Cap Core Equity	Russell 1000 Index	US Core Large Cap Equity
Domestic Large Cap Growth Equity	Russell 1000 Growth Index	US Growth Large Cap Equity
Portable Alpha	S&P 500 Index	US Large Cap Core Equity

Domestic Mid Cap Value Equity	Russell Mid Cap Value Index	US Value Mid Cap Equity
Domestic Mid Cap Core Equity	Russell Mid Cap Index	US Core Mid Cap Equity
Domestic Mid Cap Growth Equity	Russell Mid Cap Growth Index	US Growth Mid Cap Equity
Domestic Small/Mid Cap Value Equity	Russell 2500 Value Index	US Small/Mid Cap Value Equity
Domestic Small/Mid Cap Core Equity	Russell 2500 Index	US Small/Mid Cap Core Equity
Domestic Small/Mid Cap Growth Equity	Russell 2500 Growth Index	US Small/Mid Cap Growth Equity
Domestic Small Cap Value Equity	Russell 2000 Value Index	US Value Small Cap Equity
Domestic Small Cap Core Equity	Russell 2000 Index	US Core Small Cap Equity
Domestic Small Cap Growth Equity	Russell 2000 Growth Index	US Growth Small Cap Equity
International Developed Equity	MSCI EAFE Index (Gross)	International Active Equity
Portable Alpha	MSCI EAFE Index (Gross)	International Active Equity
International Small Cap Equity	MSCI World Ex US Small Cap Index (Gross)	International Small Cap Equity
International Emerging Equity	MSCI Emerging Markets Index (Gross)	Emerging Markets Equity
Global Equity	MSCI All Country World Index	Global Equity
Core Fixed Income	BC US Aggregate Bond Index	US Broad Market Core Fixed Income
Portable Alpha	BC US Aggregate Bond Index	US Broad Market Core Fixed Income
High Yield Fixed Income	BC US Corporate: High Yield Index	US High Yield Bonds
Global Fixed Income	BC US Aggregate Bond Index	Global Fixed Income
TIPS	BC U.S. TIPS Index	US TIPS
Commodities	S&P GSCI Light Energy Index	N/A
Energy	Cliffwater Private Energy Index	Cliffwater Private Energy Index

EXTERNAL INVESTMENT MANAGEMENT OF TRADITIONAL ASSET CLASSES

In order to maintain continuity and the level of expertise required, the Fund's assets, excluding the PERA building, shall be 100% externally managed by investment professionals registered under the Investment Advisors Act of 1940 (or appropriately exempt from registration). The Board has elected to utilize a combination of active and passive management, to be implemented entirely by external investment managers. The Board will formally evaluate on a regular basis

certain strategic decisions regarding the portfolio structure. The major types of strategic decisions include but are not limited to:

- The passive vs. active management mix;
- Any strategic overweights/underweights based on market capitalization, investment style, sector allocation or other factors.

A. SEARCH AND SELECTION

The Board has established the following objectives for hiring external investment managers for publically traded asset classes. In establishing these objectives, it is the Board's intention to assure all interested parties that decisions made in carrying out these actions occur in a full disclosure environment characterized by competitive selection, objective evaluation, and proper documentation. The overriding consideration with respect to all decisions is that they shall be made solely in the best interest of the Fund.

Any action to hire a manager will be based on one or more of the following circumstances:

- Identification of a new asset class or strategy which has been approved in advance by the Board;
- A need for enhancing diversification by style, method, or other factor, within an existing asset class;
- A need to replace an investment manager that the Board intends to terminate;
- A need to retain additional managers in order to reach an asset class target and avoid excessive manager concentration.

The selection of new investment managers will adhere to a consistent merit-based procurement process to ensure an open and competitive manager universe, proper evaluation and due diligence of all candidates, and selection. The evaluation process will follow the PERA of New Mexico Procurement Policy for Investment-Related Services (*Section XIV.E. Procurement Policy*). All efforts should be conducted in an open, competitive and transparent environment in order to assure that qualified service providers are identified, that the objectives for the manager's mandate are clearly articulated, and that pricing is at market.

B. MONITORING AND EVALUATION

Manager retention decisions have the same potential impact on returns as manager selection decisions and should be afforded the same degree of attention. The Board recognizes the discipline necessary to maintain a long-term focus on the Fund and has designated the following framework for identification of existing and potential problems; it outlines how and when PERA should address specific issues and events thereby avoiding untimely or ad-hoc decisions that may adversely impact Fund returns. This Policy will

apply to all of PERA’s external managers, except where otherwise noted, and is intended to accomplish these objectives:

- Foster a long-term approach to manager evaluation;
- Provide a logical and statistically valid framework for manager evaluation;
- Promote timely responses to actual and potential performance issues;
- Provide flexibility to allow application across all asset classes, management styles, and market environments.

Monitoring and Evaluation Process

The framework for retention analysis relies on a formal performance reporting process that includes:

- Monthly performance reports from Custodian (*Section XI. B. Custodian*) and Consultant to Staff. These reports will detail overall performance of the Fund and the performance of individual managers.
- Quarterly performance reports from the investment managers to Staff.
- Regular quarterly reports from Staff and Consultant to the Committee at regular Committee meetings.

The formal performance reports per Section XII of this Policy are supplemented by qualitative analysis generated in the course of regular, on-going contact between the investment managers, Staff and the Consultant.

C. WATCH LIST

A manager retention decision is very important to the continued success of a pension fund’s investment strategy. As such, it should not be taken lightly nor should it be made with blind reliance on quantitative or qualitative guidelines. The ultimate decision rests with the Board following consultation with Staff and/or the Consultant.

Quantitative Factors Resulting in Watch List Additions

A number of factors may contribute to a manager’s over- or under-performance at any given time such as - market dynamics, investment skill, and/or pure chance. Given this uncertainty, it is unwise to mandate termination purely for lagging performance at any specific point. The following represent guidelines to be used in making a recommendation to the Board with regards to placing a traditional asset class manager on the Watch List:

- Test 1 If the manager’s rolling, three-year return (gross of fees) falls below the rolling, three-year benchmark return for three (3) consecutive quarters.
- Test 2 If the manager’s rolling, three-year return (gross of fees) for three (3) consecutive quarters ranks in the bottom third of the Consultant’s peer group universe.

The quantitative guidelines above refer to a minimum time frame of three (3) years, which is preferred, but not required for inclusion on the Watch List. If a negative performance trend for a manager with less than a three year track record with PERA becomes of concern to Staff, Consultant and/or the Board, Staff will ask the Consultant to conduct a “look back” review of the manager’s strategy using longer-term composite information. The strategy will be put through the same tests as stated in the above guidelines.

The Committee can make a recommendation to the Board to place a manager on the Watch List based on the quantitative criteria. The Board may place the manager on the watch list at any time.

Once a manager is placed on a Watch List, the Committee will be notified by Consultant and/or Staff and performance will be closely monitored and scrutinized. All of the qualitative criteria should be reviewed along with an explanation of the underperformance from the manager. Additional actions could include Staff meetings with the manager and a formal re-interview of the manager by the Board. A recommendation from Staff and Consultant to terminate or retain the manager must be made to the Committee at the meeting following inclusion on the Watch List. The manager will remain on the Watch List pending a recommendation to the Committee by Staff and Consultant as to the manager’s ongoing relationship.

Expectations will be established by Consultant and/or Staff on a case-by-case basis specific to the manager for recommendation to the Committee for removal from the Watch List. Failure to achieve these expectations shall result in termination. Generally, one period of a rolling, three (3) year return above the benchmark or above the bottom third of the Consultant’s peer group universe following placement on the Watch List will be required for a manager’s removal from the Watch List.

Qualitative Factors Resulting in Watch List Additions

A significant and potentially adverse event related, but not limited, to any of the following qualitative issues or events, will be considered a reason to add the manager to the Watch List. Examples include, but are not limited to, these events:

- Violation of investment guidelines;
- Deviation from stated investment style and/ or shifts in the firm’s philosophy or process;
- Turnover of one or more key personnel;
- Change in firm ownership or structure;
- Significant loss of clients and/or assets under management;
- Significant and persistent lack of responsiveness to client requests;
- Litigation;
- Failure to disclose significant information, including potential conflicts of interest;
- Chronic violations of PERA’s Policy;
- Any other issue or situation of which the Staff, Consultant and/or Committee become aware that is deemed material.

Should any of these events occur, the recommended courses of action are similar to those contained in the preceding section (*Quantitative Factors Resulting in Watch List Additions*).

After an assessment of the nature of the problem or potential problem, the Committee should then make a determination as to the appropriate course of action at the meeting after notification. Possible responses include, but are not limited to, the following:

- No action;
- Placement on Watch List;
- Immediate Staff meetings with the manager;
- Formal re-interview of the manager by the Board;
- Initiation of a comprehensive review;
- Termination.

Additions and removals from the Watch List will be treated on a case-by-case basis by the Board, Staff and Consultant.

If an issue is considered serious enough, a special meeting of the Committee and/or Board may be requested by the Executive Director, based on recommendations by the CIO and/or Consultant.

D. TERMINATION

From time to time it will be necessary for the Board to terminate a contractual relationship with an Investment Manager. These actions must be viewed in the context of a business decision. Due to the sensitivity of this issue, the Board has established the following guidelines to assist in making these termination decisions. In establishing these guidelines, it is the Board's intention to assure all interested parties that decisions made in carrying out these actions occur in a full disclosure environment characterized by objective evaluation and proper documentation. The overriding consideration with respect to all decisions is that they shall be made solely in the best interest of the Fund.

Any action to terminate a manager may be based on one or more but not limited to, the following primary criteria:

- Significant changes in firm ownership and/or structure
- Loss of one or more key personnel
- Significant loss of clients and/or assets under management
- Shifts in the firm's philosophy or process
- Significant and persistent lack of responsiveness to client requests
- Changes in PERA's investment strategy eliminating the need for a particular style or strategy
- Chronic violations of PERA's Policy
- Investment performance that has fallen below Policy expectations (*Section VII. B. Performance Benchmarks, Mandate-Level Benchmarks*)
- Identification of a new asset class or strategy which has been approved in advance by the Board
- A need for diversification of styles within an existing asset class

- Any other issue or situation of which the Staff, Consultant and/or Committee become aware that is deemed material.

According to provisions of the Professional Services Agreement (PSA) used by PERA, the Board may terminate an investment manager at any time with thirty (30) days notice.

Prior to the termination decision, the primary and other relevant considerations shall be identified and documented in Committee and Board minutes and supporting documents. It is the Board's intent to have a plan in place before termination of any manager including embracing the Request for Proposal process for traditional manager additions and replacements.

INVESTMENT GUIDELINES

The Board may invest and reinvest the funds in the following classes of securities and investment activities as long as such investments comply with the UPIA. Fund of Fund strategies are allowable in any of the asset classes. All investments are subject to approval of the Board and satisfactory legal review of applicable contractual terms and conditions.¹

A. PERMITTED INVESTMENTS

Equity

- Preferred stock, common stock, initial public offerings, securities of foreign issuers listed on U.S. Exchanges, and any security convertible to common stock or American Depository Receipts (ADRs) that are registered by the U.S. Securities and Exchange Commission (SEC) of any corporation whose securities are listed on at least one U.S. stock exchange that has been approved by or is controlled by the SEC or on the National Association of Securities Dealers (NASD). Global mandates may be considered.
- Preferred stock, common stock, and convertible issues of any non U.S. Corporation; which may be denominated in non U.S dollars, provided that the securities are traded on one or more national stock exchanges or included in a nationally recognized list of stocks; and provided that the funds of which the retirement board is trustee shall not be invested in more than ten percent of the voting stock of any company.
- Portable Alpha for the purpose of earning excess return of 3% above a designated index (i.e. the S&P 500, EAFE, Barclays Aggregate, or other commonly used indexes) by combining the alpha potential of hedge funds with beta exposure acquired through swaps and/or futures. Performance of the Portable Alpha Program shall combine: (i) investments in a diversified portfolio of hedge funds, (ii) a cash reserve of short term cash investments, and (iii) a set of S&P 500 Index or other reference index swaps and futures contracts. The beta overlay component shall replicate the returns of the difference between the S&P 500 Index return, or other reference index, and LIBOR through swaps and futures. The cash reserve component of the portfolio shall provide sufficient liquidity to provide for possible cash outflows

¹ Investments listed here are for general information purposes only. Each manager retained by the Board will be given specific guidelines with regard to permissible investments relevant to their role.

stemming from net losses in the beta overlay and to earn a cash return equal to or above LIBOR at comparable risk. The target size of the cash reserve is 15% of Portable Alpha portfolio assets, but could vary significantly to settle periodic swap payments and receipts. The alpha generating hedge fund component is expected to deliver an absolute net of fee return between 3% and 4% per year in excess of LIBOR at a bond like level of risk. The target size of the hedge fund portfolio is 85% of Portable Alpha portfolio assets, but could vary due to periodic swap payments and receipts. *Appendix A. Portable Alpha* contains further details on the Portable Alpha program.

Fixed Income

- Bonds, notes or other obligations of the United States government, its agencies, government-sponsored enterprises, corporations, or instrumentalities for which the credit of the United States government is pledged for the payment of the principal and interest. Global mandates may be considered.
- Bonds, notes or other obligations issued by a state, its municipalities or other political subdivisions, that have received an investment grade bond rating, and are registered by the SEC or the Municipal Securities Rulemaking Board (MSRB).
- Bonds, notes, commercial paper or other obligations of any corporation organized and operating within the United States.
- Debt obligations of non-United States governmental or quasi-governmental entities, these may be denominated in foreign currencies; obligations, including but not limited to bonds, notes or commercial paper with an investment grade rating (unless otherwise approved by the Board) of any corporation organized outside of the United States. Currency transactions, including spot or cash basis currency transactions, forward contracts and buying or selling options or futures on foreign currencies, shall be permitted for the purposes of hedging foreign currency risk.
- Collateralized obligations, including but not limited to mortgages, held in trust that: (1) are publicly traded and are registered by the SEC or other Self Regulatory Organization (SRO) and (2) have underlying collateral that is either an obligation of the United States government or else has a credit rating above or equal to BBB according to the Standard and Poor's rating system or Baa according to the Moody's investors rating system or their equivalent by a national rating agency approved by the Board (unless otherwise approved by the Board).

Real Estate and Real Assets

- Real Estate Investment Trusts (REITS), including equity investments in publicly traded securities of a company dedicated to owning, and/or, operating income-producing real estate, including but not limited to apartments, shopping centers, offices and warehouses.
- Real Estate Partnerships, including investments in private vehicles through limited partnerships or limited liability companies that have an ownership interest in direct real estate properties, whether income-producing or non-income producing. The investment strategies may include “value added” strategies, which derive their return from both income

and appreciation, and “opportunistic,” which derive their return primarily through appreciation.

- Inflation-indexed bonds, including investments in actively or passively managed investment vehicles. Treasury Inflation Protected Securities (TIPS) are an example of inflation-indexed bonds.
- Commodities, including but not limited to futures and/or swaps on individually traded commodities or indexes comprising groups of commodities like the Goldman Sachs Commodity Index (GSCI) or Dow Jones – AIG Commodity Index (DJ-AIGCI). Commodities may be used as an overlay strategy on TIPS or other publicly traded instruments.
- Timber Partnerships, including but not limited to, investments in limited partnerships or limited liability companies that have an ownership interest in properties where the majority value of the property is derived from income-producing timber.
- Energy Partnerships, including but not limited to limited partnerships or limited liability companies that have an ownership interest in energy-related businesses. Investments may include those across the industry spectrum from upstream (exploration and production), to midstream (processing and transportation), to downstream (refining and distribution).

Absolute Return (Hedge Funds)

- Hedge Funds shall invest primarily in publicly traded securities and derivatives and use long and short positions and leverage, within limits as specified in each hedge fund’s governing documents, to reduce market exposure in order to profit from security selection. Hedge funds shall manage at least \$100 million in the investment strategy for which they are hired. Funds-of-funds investment vehicles may be used for up to 20% (1/5) of the hedge fund strategic allocation target of 9% of total fund assets.
- Market Neutral strategies such as equity market neutral, fixed income arbitrage, and convertible bond arbitrage.
- Credit strategies that typically invest in high yield bonds, bank loans and structured credit products.
- Distressed strategies that seek to take advantage of corporate securities in default, under bankruptcy protection, in distress or heading toward such a condition or in liquidation.
- Event Driven strategies that take advantage of transaction announcements and other one-time events, including merger arbitrage, spin-offs and restructurings.
- Equity long/short strategies where there is a combination of long and short positions primarily in publicly traded equities, with a net market exposure less than that of the overall equity market. Strategies may be focused on U.S., non-U.S., and/or specialty mandates.

- Global Macro strategies such as all market portfolios, opportunistic long-only, managed futures, currency, dedicated short selling strategies or other specialty strategies.
- Multi-strategy hedge funds that invest using a combination of previously described strategies.

Private Equity

- Private investments that provide capital for company start-up, expansion, buyout/acquisition, recapitalization, debt financing (either distressed debt or mezzanine financing), or other business purposes. Private equity includes buyouts, venture capital, non-U.S., and distressed debt. Private equity managers shall have a verifiable track record and long-term experience of at least 5 years working together as a team.
- Buyouts, including investments in acquisitions, growth equity, recovery investments, subordinated debt, and special situations, which represent a diversified strategy across many sub-categories. Investments shall be made across the market capitalization spectrum and involve the purchase of a control position (primarily majority positions, with some minority positions) in an established company. The use of leverage is acceptable. Investments are typically made in years one through six and returns typically occur in years three through ten. Investments may be made in companies that are either U.S. or non-U.S. domiciled.
- Venture Capital, including investments in companies in a range of stages of development from start-up/seed-stage, early stage, and later/expansion stage. Investments are typically made in years one through six and returns typically occur in years four through ten. Investments may be made in companies that are either U.S. or non-U.S. domiciled.
- Distressed Debt, including investments in the debt instruments of companies which may be publicly traded or privately held that are financially distressed and are either in bankruptcy or likely candidates for bankruptcy. Typical holdings are senior and subordinated debt instruments and bank loans. Equity exposure is acceptable as debt positions are often converted to equity during the bankruptcy reorganization process. Investments are typically made in years one through five and returns typically occur in years three through ten. Investments may be made in companies that are either U.S. or non-U.S. domiciled.

Operating Cash Management

For cash management, the Board may utilize the services of the State Treasurer for overnight investment of short-term assets. The Board may also utilize a separate or commingled short-term investment fund (“STIF”) approved by the Board and administered by the Custody Bank which is designated by the State Treasurer or the State Board of Finance. PERA can only utilize STIF accounts that invest in those securities authorized by PERA’s statutes, Policy and investment guidelines. Investment managers shall invest all cash in PERA’s approved STIF funds.

Currency

Active currency strategies which do not necessarily hedge existing international holdings, but instead, seek absolute return which may include leverage, cross-hedging, emerging markets, and interest rate futures are allowable.

Repurchase Agreements

Contracts for the purchase of specific securities and subsequent resale at a specified date and price in the future, of duration not to exceed one year. No such contract shall be entered into unless the contract is fully secured by obligations of the United States, or other securities backed by the United States, having a market value of at least one hundred two percent of the amount of the contract. Prior to approval of the State Board of Finance with respect to the Custodial Bank agreement, tri-party repurchase agreements are proper investments under this Policy. No such contract shall be entered into unless the contracting bank, brokerage firm or recognized institutional investor has a net worth in excess of five hundred million dollars (\$500,000,000).

Mutual Funds and Commingled Investments

Mutual funds or other similar commingled investments as an alternative to investing in separately managed portfolios of stocks and bonds. Such investments may be in stocks or shares of a diversified investment company or mutual fund registered under the Federal Investment Company Act of 1940, provided that the investment company has total assets under management of at least one hundred million dollars (\$100,000,000); individual, common or collective trust funds of banks or trust companies, provided that the investment company has assets under management of at least one hundred million dollars (\$100,000,000); provided that the board may allow reasonable administrative and investment expenses to be paid directly from the income or assets of these investments.

Exchange Traded Funds (ETFs)

The investment managers whose account is structured as a separate account shall limit their use of ETFs to those situations where a comparable investment yielding comparable investment results cannot be obtained on a separately managed basis except as provided in their governing documents or PSA and will be subject to review by Staff and Consultant.

Borrowing and Use of Derivatives

- Leverage. Leverage used with any investment strategy will be consistent with the discipline for which the Board hired the investment manager. Use of leverage will be controlled as appropriate in each manager's respective governing documents and will be subject to review by Staff and Consultant.
 - Authorized Uses of Derivatives. Investment managers shall not purchase securities on margin, sell short, use individual stock options, puts, calls, or trade in futures contracts, unless specified in the governing documents entered into by PERA and the investment manager.
1. The Board delegates to Staff, in consultation with the investment consultants, the ability to equitize cash through the use of futures or other exchange traded derivatives for the purpose of reducing cash "drag."

2. The Board delegates to Staff, in consultation with the investment consultants, the ability to use futures or other exchange traded derivatives for the purpose of re-balancing to long-term policy allocation targets.
- Compliance and Reporting. Each traditional asset investment manager is required to report to the Board the market value of derivatives exposure in the portfolio, both quarterly and annually. Each separate account investment manager is required to report to the Board in their quarterly and annual report the market value of ETFs, commingled funds and mutual funds if these investments are contained in the portfolio. The Consultant shall provide Staff, at least annually, an estimate of the market value of derivatives exposure and an estimate of the leverage within the alternative assets.

B. PROHIBITED INVESTMENTS

Per UPIA guidelines, the Board, all investment managers, and Staff are expected to perform their fiduciary duties as a prudent investor would and to conform to all applicable federal and state statutes governing the investment of retirement funds. The following investments are prohibited:

- Investments precluded by law or regulation.
- Transactions that involve a broker acting as a “principal” where such broker is also the investment manager who is making the transaction are prohibited unless otherwise approved in each manager’s respective PSA.
- Any other investments as specified in each manager’s respective PSA.

C. DIVERSIFICATION

- Portfolios managed on behalf of PERA should not hold more than 10% of the outstanding securities of any single issuer, unless specified in their governing documents.
- Individual manager diversification will be addressed in each manager’s respective PSA.
- Refer to *Section III.D. Investment Objectives, Diversification*.

ALTERNATIVE ASSET PROGRAM

A. ASSET ALLOCATION

The CIO and Consultant shall aggregate investment vehicle data within each alternative investment asset class and perform analysis on each aggregate portfolio, paying careful attention to individual investment vehicle allocations and strategy/sector concentrations to strive to achieve proper diversification within the specific alternative investment class.

Real Assets and Real Estate

- PERA shall endeavor to limit the potential for any one investment to materially harm the long-term results of the Real Asset and Real Estate Program by investing across a variety of industries and geographic locations.
- PERA shall not comprise more than 20% of any one investment vehicle, unless that vehicle is a separately managed account, and any one investment vehicle may not comprise more than 10% of the Real Assets and Real Estate Program once it is fully invested, calculated on a committed capital basis. The optimum number of investment vehicles in the portfolio and the maximum exposure to any one investment vehicle varies with time and will be evaluated as part of the annual plan for the Real Assets and Real Estate Program.
- PERA shall strive to limit the potential for any one investment to negatively impact the long-term results of the Real Assets and Real Estate Program by investing across business cycles and vintage years.
- Private investment vehicles are illiquid and typically have expected holding periods of 10-12 years. Investments are typically held until maturity and selling prior to maturity may result in realizing a sales price that reflects a discount to fair market value. Liquidity risk is managed by minimizing the possibility of forced sales that may arise from exceeding maximum exposure limits or lowering asset allocation targets to private real assets or real estate investments.
- PERA shall ordinarily direct the sale of securities distributed by its investment vehicles as soon as practically possible and strive to not impair the value of the security.
- The targeted and range of investment exposures to the various real asset and real estate styles are shown in the table below. These exposures should be measured on a fair value basis, once the Real Asset and Real Estate Program is fully invested. During the Real Asset and Real Estate Program's ramp-up period, exposures can be estimated using percentages of committed capital.

Style	Target	Minimum	Maximum
Real Estate Partnerships	37.5%	30%	45%
REITS	12.5%	5%	20%
Commodities	12.5%	7%	18%
Timber	12.5%	0%	18%
Energy Partnerships	25%	20%	45%
Total	100%		

Absolute Return (Hedge Funds)

- Funds-of-funds investment vehicles may be used for up to 20% (1/5) of the absolute return strategic allocation target of 9% of total fund assets. Over the long-term (3-5 years), performance of the Absolute Return Program is expected to exceed LIBOR by 4% annualized, net of fees and expenses.

- Over the short-term, performance of the Absolute Return Program is expected to exceed the HFRI Fund-of-Funds Composite Index, net of fees and expenses.
- No more than 15% of the Absolute Return Program’s market value of assets may be invested in any hedge fund at the time of investment. If a hedge fund’s market value exceeds 20% of the Absolute Return portfolio’s market value, Staff will implement a plan to reduce the exposure to 15% or less over a six month period. Staff will report its re-balancing plan to the Committee and the Board at the next regular meeting. During the investment period the weightings to individual funds and exposures may temporarily exceed the limits previously indicated. In addition, the weightings to individual funds and exposures may temporarily exceed the limits previously indicated to the extent that lock-up periods or other liquidity restrictions with respect to a hedge fund prevent an immediate reallocation. No investments shall be made in any hedge fund if the combined Absolute Return and Portable Alpha investments in that hedge fund represent more than 1% of total PERA assets at the time of investment. If any hedge fund’s combined Absolute Return and Portable Alpha market value exceeds 1.75% of total PERA assets, Staff and consultant will implement a plan to reduce the exposure below 1.75% of total PERA assets over a six month period. Staff will report its re-balancing plan to the Committee and the Board at the next regular meeting.
- Individual hedge fund investments may have specified liquidity parameters defining lock-up periods and withdrawal frequency. Liquidity risk is managed by monitoring and maintaining a schedule of the liquidity of the individual hedge funds and aggregating it at the total Absolute Return Program level.
- The performance of individual hedge funds will be evaluated compared to their expected return premium over LIBOR (300-500 basis points) over trailing 5 year periods, net of all fees and expenses, as well as their respective peer universe over shorter time periods, as measured by a recognized hedge fund index provider.

Absolute Return (Hedge Fund) Investment Targets:

Style	Target	Minimum	Maximum
Market Neutral	5%	0%	20%
Credit	15%	5%	25%
Distressed	10%	5%	20%
Event Driven	20%	10%	30%
Equity	25%	15%	45%
Long/Short			
Global Macro	5%	0%	20%
Multi-Strategy	20%	15%	50%
Total	100%		

Private Equity

- It is recognized that it may take three to five years for the Private Equity Program to be fully invested and that there may be deviations from the Private Equity Investment Targets during the initial funding period.
- Private equity investments are typically private equity limited partnerships, but may also include other entities such as limited liability companies or offshore corporations. These investment vehicles may invest in any type of security throughout the capital structure.
- PERA shall endeavor to limit the potential for any one investment to materially harm the long-term results of the Private Equity Program by investing across a variety of industries and geographic locations. For investments in venture capital, it is recognized that opportunities may be most readily available in a relatively limited number of industries.
- The Fund shall not comprise more than 20% of any one investment vehicle, and any one investment vehicle may not comprise more than 8% of the Private Equity Program once it is fully invested, calculated on a committed capital basis. The optimum number of investment vehicles in the portfolio and the maximum exposure to any one investment vehicle varies with time and shall be evaluated as part of the annual plan for the Private Equity Program.
- The potential for any one investment to negatively impact the long-term results of the Private Equity Program shall be limited by investing across business cycles and vintage years. Investments shall be selected with the goal of gaining exposure to the array of financing stages by opportunistically exploiting the best investments at different stages of the business cycle.
- Private equity investments are illiquid and long term in nature (10-12 years), typically held until maturity. Selling prior to maturity may result in realizing a sales price that reflects a potentially substantial discount to fair market value. Liquidity risk shall be managed by minimizing the possibility of forced sales that may arise from exceeding maximum exposure limits or lowering asset allocation targets to private equity investments.
- Should PERA receive distributions of securities in-kind from its private equity investments, PERA, subject to the Limited Partnership Agreement, shall direct the sale of those securities as soon as practically possible without impairing the value of the security.
- Individual investment vehicle performance, as measured by the internal rate of return, shall be evaluated compared to the performance of respective peer universes and vintage years, as provided by a recognized private equity data provider such as Venture Economics or Cambridge Associates. It is recognized that immature private equity investments will ordinarily have a “J-curve effect” whereby there are low to negative returns in the initial years due to the payment of investment management fees during a period when investments are typically carried at cost and returns have not been realized.
- The performance of the Private Equity Program, net of fees and expenses, is expected to exceed the PERA U.S. Equity asset class benchmark by 3% annualized over periods greater than five years.

- Within 3 to 5 years after the program is fully invested, performance of the Private Equity Program is expected to exceed the median return of a peer universe as provided by a recognized private equity data provider (e.g. Venture Economics or Cambridge Associates) for the respective vintage years.
- The targeted and range of investment exposures to the various private equity styles are shown in the table below. These exposures should be measured on a fair value basis, once the Private Equity Program is fully invested. During the Private Equity Program’s ramp-up period, exposures can be estimated using percentages of committed capital.

Private Equity Investment Targets

Style	Target	Minimum	Maximum
Buyout	55%	30%	70%
Venture Capital	20%	10%	30%
Non-U.S. ¹	15%	5%	25%
Distressed Debt ²	10%	0%	40%
Total	100%		

¹ Non-U.S. exposure refers to private equity funds with a primary investment focus outside of the U.S. and/or significant operations outside of the U.S., rather than to where the underlying investments are domiciled.

² The wide investment target range for Distressed Debt reflects the cyclical nature of this investment style. The amount of money raised by distressed debt managers and the performance expectations for distressed investments tends to increase during economic downturns. Private equity investors typically commit greater amounts to distressed debt in periods of economic distress, while reducing amounts in periods of economic strength.

B. SEARCH AND SELECTION

The Alternative Investment approval process is a thorough and comprehensive process that considers each individual investment. Staff reviews the Consultant’s due diligence report for each investment recommendation and discusses each recommendation with the Consultant. The Committee also reviews the Consultant’s due diligence report and Staff’s written analysis for each recommended alternative investment. Each recommendation is presented to the Committee for its consideration to recommend to the Board. The Board reviews these same written reports for alternative investments recommended by the Committee, with the Board having final authority to approve each investment recommendation. The General Counsel and External Legal Counsel review the legal documents for all approved alternative investments. All investments are subject to satisfactory legal review.

Below is the schematic that PERA follows for search and selection.

PERA Alternative Investment			
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Asset Program Process Schematic				
	Consultant	Staff	Committee	Board
1) Consultant and Staff collaborate on potential investments, discussing the merits, "fit," and competitive advantages of each	2) Consultant performs thorough due diligence	4) Staff reviews Consultant's written recommendation and any additional due diligence materials ¹	6) Consultant/Staff make recommendation to Committee	8) Committee makes recommendation to Board; Board approves/disapproves, subject to legal review and governing document negotiation
	3) Consultant provides written recommendation to Staff	5) Staff and Consultant provide written recommendation to Committee	7) Committee reviews and approves/disapproves recommending to the Board	
	9) Legal documents reviewed by General Counsel, External Counsel, Staff, and Consultant			
	10) Negotiation of legal documents by internal and External Counsel, Staff, fund managers, and Consultant			
		11) Executive Director/designee executes governing document		
	12) Staff/Consultant monitors partnership, Consultant prepares monthly and quarterly reports			

¹The Procurement Policy provides that in fulfilling this responsibility the CIO may, at his or her discretion, or as directed by the Board, meet directly with alternative investment managers under review and engage in other activities that enhance PERA's knowledge of and satisfaction with the recommendation of the Consultant.

On or before December 31 of each year, Consultant will provide the Staff with a proposed commitment budget and action plan for the upcoming calendar year for their review. The purpose of this plan is to provide PERA with the Consultant's outlook for the assets that constitute the private asset program as well as an overview of the Consultant's specific investment objectives and goals for PERA for the upcoming year. The plan should address the following:

1. An overview of the Consultant's outlook for the market.
2. The Consultant's recommended investment strategy for PERA for the following calendar year. The investment strategy should include recommended commitment budgets for each private asset class, as well as projected asset class sub-strategy allocations for each of the private asset classes.
3. A review of the previous year's commitment budget, actual commitments made, and actual cash flows; the review should include a model of projected cash flows and assumptions for arriving at the recommended commitment budgets.
4. An estimate of the number partnerships the Consultant expects to recommend to PERA for the following year and the amount of capital connected therewith.

C. DUE DILIGENCE

The Staff and Consultant will also conduct due diligence with the respective alternative investment managers to understand the underlying drivers of performance and risks associated with the managers' strategies. Additionally, the Staff and Consultant shall conduct portfolio reviews and on-site due diligence as necessary. Site visits will be performed to confirm that appropriate infrastructure is in place to support the investment process. The Staff and Consultant shall provide the Board with regular performance reports and advise the Board of other matters, including providing redemption recommendations, as appropriate.

D. PLACEMENT FEES

PERA shall not invest with any investment manager, other than with managers of publicly traded equities or publicly traded fixed-income securities, unless the investment manager discloses the identity of any third-party marketer who rendered services on behalf of such investment manager in obtaining the investment and also discloses the amount of any fee, commission or retainer paid to the third-party marketer for the services rendered. "Third-party marketer" means a person who, on behalf of an investment fund manager or other person seeking an investment from the fund and under a written or implied agreement, receives a fee, commission or retainer for such services from the person seeking an investment from the fund. PERA Staff and/or Consultant will review affected managers on an annual basis.

E. MONITORING

These requirements shall apply to the Real Assets and Real Estate, Absolute Return, and Private Equity Programs. Through the monitoring process, Staff and Consultant will extend the initial due diligence into monthly performance reports, quarterly portfolio reports and annual reviews. This monitoring process regularly seeks to determine whether the investment is meeting the specific alternative investment asset class objectives and other requirements. In the broadest sense, the monitoring process is intended to determine whether the initial reasons for selecting

the strategy and investment vehicle remain valid. The monitoring process should disclose whether there has been any material deviation from the investment philosophy and process; the personnel responsible for managing the investment vehicle are still in place; the organization continues to be stable; performance and risk meet expectations; and the investment vehicle manager adheres to its investment and other requirements. The underlying principle of the monitoring program is to determine whether all risks to which PERA is exposed through the use of outside investment advisors have been identified, understood, and, to the extent possible, controlled. The monitoring process focuses on four areas:

- Compliance with reporting and valuation requirements;
- Continuity of investment philosophy and process;
- Stability of personnel and organization; and
- Performance and risk management.

The Consultant will place an alternative investment on its Watch List if serious concerns exist. The Consultant provides Staff with a Watch List report for each investment on the Consultant's Watch List. The Consultant reports all Watch List investments to the Committee and provides the Committee with frequent updates on all Watch List investments. A Watch List designation is not a prerequisite for redemptions.

SAFEKEEPING AND CUSTODY

A. STATE TREASURER

The Board shall utilize the services of the State Treasurer for holding PERA's assets. The State Treasurer at the direction of the Board shall deposit said assets with a bank or trust company for safe keeping or servicing.

B. CUSTODIAN

The Custodian holds assets directly, through its agents, its sub-custodians, or designated clearing systems, assets. The Custodian is accountable for registration of those designated assets in good delivery form, collection of income generated by those assets, and any corporate action notification. The Custodian is responsible for delivery and receipt of securities of the aforementioned transactions. The Custodian is responsible for the ongoing pricing and valuation of all assets; investment managers of traditional assets must reconcile their values to those of the Custodian. Alternative investment managers will provide PERA's capital account statements to the Custodian. The Custodian is to cooperate with, and provide assistance to, PERA and its investment managers in the reconciliation process. The Board may opt to designate other duties to the Custodian as stipulated in its agreement with the State Board of Finance. The Custodian is required to provide online records and reports, performance reporting, accounting reports and other services included in the agreement.

REPORTING REQUIREMENTS

A. EXTERNAL MANAGERS FOR TRADITIONAL ASSETS

Within thirty days after the close of every fiscal year, each investment manager of traditional assets must certify that its internal portfolio accounting statements reconcile with those of PERA for the year just ended. The certified portfolio detail must be reported to PERA by July 31 of each year. If reconciliation cannot be completed within the designated period, a list of discrepancies must be provided along with an explanation of how they shall be resolved.

An investment manager of traditional assets under contract to PERA must preliminarily reconcile the differences between market values of securities as reported by the Custodian and the market values as shown on the monthly report of the investment manager's records and report such to PERA staff on a monthly basis not later than 30 days after month end. In the event of a disagreement between PERA and the investment manager as to the market value of securities or the "market value of account" for the purposes of any fee agreement, the market value of securities or "market value of account" as determined by PERA shall prevail.

The Board reviews the investment performance of the managers against their stated objectives, both gross and net of fees, at least quarterly. At the sole discretion of the Board, each investment manager may be expected to meet with the Board at least annually to review its portfolio and investment results in the context of this Policy.

An investment manager under contract must report to PERA, as soon as administratively possible, if at any time there is:

- A change in investment philosophy;
- A loss of one or more key professionals;
- A new portfolio manager on PERA's account;
- A change in ownership structure of its firm;
- Any occurrence which might potentially impact the management, professionalism, integrity or financial position of the management firm.

Each investment manager is required to annually report to the Board the market value of derivatives exposure in the portfolio. Each separate account investment manager is required to report to the Board in their quarterly and annual reports the market value of ETFs, commingled funds, mutual funds and currency hedges if contained in their portfolio.

B. EXTERNAL MANAGERS FOR ALTERNATIVE ASSETS

Alternative investment managers will provide PERA's capital account statements to the Custodian. The CIO and Consultant shall provide the Board with regular performance reports and advise the Board of other matters as appropriate. Additional guidelines are included in *Section X.E. Alternative Asset Program, Monitoring*.

C. CUSTODIAN

The Custodian will, as directed by Staff, provide periodic performance reports to Staff and Consultant. These reports shall detail the individual performance of managers and the overall performance of the Fund.

D. CONSULTANT(S)

The Consultant(s) will provide quarterly performance reports to Staff and the Board at its regular meetings. In preparing these reports, the Consultant will rely upon asset values and performance calculations reported by the Custodian.

E. STAFF

Staff will be responsible for ensuring that performance reports are received in a timely manner from these parties and will provide continual supervision of external performance reporting on the portfolio. Staff will work with the Consultant to complete a detailed performance measurement report on a quarterly basis. The executive summary will, at a minimum, include information for the most recently available one, three, and five year periods.

REVIEW AND APPROVAL OF INVESTMENT POLICY

The Board shall review the Policy from time-to-time to determine if modifications are necessary or desirable but will delegate Staff to review the Policy on an annual basis. Staff will recommend modifications as warranted. If modifications are made, they shall be promptly communicated to all investment managers and other interested persons.

Modifications may occur due to:

- Operational problems that become apparent during the investment management process;
- Changes in economic prospects, Fund characteristics, the development of new investment instruments or strategies, or sponsoring employer organizations;
- Other causes as determined by the Board.

By signing this Statement of Investment Policy the Board through its Chair, indicates its agreement therewith.


Adopted: June 25, 1992
Amended: September 14, 1993
Amended: April 28, 1994
Amended: September 28, 1995
Amended: January 29, 1998
Amended: March 23, 1998
Amended: January 27, 2000
Amended: September 26, 2002
Amended: July 31, 2003
Amended: October 31, 2003
Amended: July 1, 2005
Amended: September 28, 2005
Amended: December 29, 2005
Amended: July 27, 2006
Amended: August 31, 2006
Amended: September 28, 2006
Amended: June 1, 2007
Amended: August 30, 2007
Amended: July 31, 2008
Amended: June 24, 2010

By: _____
Cynthia D. Borrego, Chairperson
Public Employees Retirement Association of New Mexico

Uniform Prudent Investor Act (UPIA)

West's New Mexico Statutes Annotated Currentness

Chapter 45. Uniform Probate Code

 [Article 7](#). Trust Administration

→ Part 6. Uniform Prudent Investor Act ([Refs & Annos](#))

[§ 45-7-601. Short title](#)

Sections 45-7-601 through [45-7-612 NMSA 1978](#) may be cited as the "Uniform Prudent Investor Act."

[§ 45-7-602. Prudent investor rule](#)

A. Except as otherwise provided in Subsection B of this section, a trustee who invests and manages trust assets owes a duty to the beneficiaries of the trust to comply with the prudent investor rule set forth in the Uniform Prudent Investor Act.

B. The prudent investor rule, a default rule, may be expanded, restricted, eliminated or otherwise altered by the provisions of a trust. A trustee is not liable to a beneficiary to the extent that the trustee acted in reasonable reliance on the provisions of the trust.

[§ 45-7-603. Standard of care; portfolio strategy; risk and return objectives](#)

A. A trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill and caution.

B. A trustee's investment and management decisions respecting individual assets must be evaluated not in isolation but in the context of the trust portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the trust.

C. Among circumstances that a trustee shall consider in investing and managing trust assets are such of the following as are relevant to the trust or its beneficiaries:

- (1) general economic conditions;
- (2) the possible effect of inflation or deflation;
- (3) the expected tax consequences of investment decisions or strategies;
- (4) the role that each investment or course of action plays within the overall trust portfolio,

which may include financial assets, interest in closely held enterprises, tangible and intangible personal property and real property;

(5) the expected total return from income and the appreciation of capital;

(6) other resources of the beneficiaries;

(7) needs for liquidity, regularity of income and preservation or appreciation of capital; and

(8) an asset's special relationship or special value, if any, to the purposes of the trust or to one or more of the beneficiaries.

D. A trustee shall make a reasonable effort to verify facts relevant to the investment and management of trust assets.

E. A trustee may invest in any kind of property or type of investment consistent with the standards of the Uniform Prudent Investor Act.

F. A trustee who has special skills or expertise, or is named trustee in reliance upon the trustee's representation that the trustee has special skills or expertise, has a duty to use those special skills or expertise.

§ 45-7-604. Diversification

A trustee shall diversify the investments of the trust unless the trustee reasonably determines that, because of special circumstances, the purposes of the trust are better served without diversifying.

§ 45-7-605. Duties at inception of trusteeship

Within a reasonable time after accepting a trusteeship or receiving trust assets, a trustee shall review the trust assets and make and implement decisions concerning the retention and disposition of assets, in order to bring the trust portfolio into compliance with the purposes, terms, distribution requirements and other circumstances of the trust, and with the requirements of the Uniform Prudent Investor Act.

§ 45-7-606. Loyalty

A trustee shall invest and manage the trust assets solely in the interest of the beneficiaries.

§ 45-7-607. Impartiality

If a trust has two or more beneficiaries, the trustee shall act impartially in investing and managing the trust assets, taking into account any differing interests of the beneficiaries.

§ 45-7-608. Investment costs

In investing and managing trust assets, a trustee may only incur costs that are appropriate and reasonable in relation to the assets, the purposes of the trust and the skills of the trustee.

§ 45-7-609. Reviewing compliance

Compliance with the prudent investor rule is determined in light of the facts and circumstances existing at the time of a trustee's decision or action and not by hindsight.

§ 45-7-610. Delegation of investment and management functions

A. A trustee may delegate investment and management functions that a prudent trustee of comparable skills could properly delegate under the circumstances. The trustee shall exercise reasonable care, skill and caution in:

- (1) selecting an agent;
- (2) establishing the scope and terms of the delegation, consistent with the purposes and terms of the trust; and
- (3) periodically reviewing the agent's actions in order to monitor the agent's performance and compliance with the terms of the delegation.

B. In performing a delegated function, an agent owes a duty to the trust to exercise reasonable care to comply with the terms of the delegation.

C. A trustee who complies with the requirements of Subsection A of this section is not liable to the beneficiaries or to the trust for the decisions or actions of the agent to whom the function was delegated.

D. By accepting the delegation of a trust function from the trustee of a trust that is subject to the law of this state, an agent submits to the jurisdiction of the courts of this state.

§ 45-7-611. Language invoking standard

The following terms or comparable language in the provisions of a trust, unless otherwise limited or modified, authorizes any investment or strategy permitted under the Uniform Prudent Investor Act: "investments permissible by law for investment of trust funds," "legal investments," "authorized investments," "using the judgment and care under the circumstances

then prevailing that persons of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital," "prudent man rule," "prudent trustee rule," "prudent person rule" and "prudent investor rule."

§ 45-7-612. Application to existing trusts

The Uniform Prudent Investor Act applies to trusts existing on and created after its effective date. As applied to trusts existing on its effective date, the Uniform Prudent Investor Act governs only decisions or actions occurring after that date.

Current through the Second Regular Session of the 47th Legislature (2006)
END OF DOCUMENT

New Mexico Statutes 10-11-132 and 10-11-133

CHAPTER 10. PUBLIC OFFICERS AND EMPLOYEES

ARTICLE 11. PUBLIC EMPLOYEES RETIREMENT ACT

§ 10-11-132. Investment of funds; prudent investor standard; indemnification of board members

The funds created by the state retirement system acts are trust funds of which the retirement board is trustee. Members of the retirement board jointly and individually shall be indemnified by the state from the funds administered by the retirement board from all claims, demands, suits, actions, damages, judgments, costs, charges and expenses, including court costs and attorney fees and against all liability losses and damages of any nature that members shall or may sustain by reason of any decision made in the performance of their duties pursuant to the state retirement system acts. The retirement board shall invest and reinvest the funds in accordance with the Uniform Prudent Investor Act.

CHAPTER 10. PUBLIC OFFICERS AND EMPLOYEES

ARTICLE 11. PUBLIC EMPLOYEES RETIREMENT ACT

§ 10-11-133. Investment of funds; prudent investor standard; conditions

A. Commissions paid for the purchase and sale of any security shall not exceed brokerage rates prescribed and approved by stock exchanges that have been approved by or are under the control of the United States securities and exchange commission or by industry practice.

B. The retirement board shall invest and manage the funds administered by the retirement board in accordance with the Uniform Prudent Investor Act.

C. The retirement board shall provide quarterly performance reports to the legislative finance committee and the department of finance and administration. Annually, the retirement board shall ratify and provide its written investment policy, including any amendments, to the legislative finance committee and the department of finance and administration.

D. Securities purchased with money from or held for any fund administered by the retirement board and for which the retirement board is trustee shall be in the custody of the state treasurer who shall, at the direction of the retirement board, deposit with a bank or trust company the securities for safekeeping or servicing.

E. The retirement board may consult with the state investment council or state investment officer and request information or advice with respect to the retirement board's overall investment policy, may utilize the services of the state investment council and state investment officer and may act on their advice concerning the Policy. The state investment council and state investment officer shall render investment services to the retirement board without expense to the retirement board. The retirement board may also employ the investment management services and related management services of a trust company or national bank exercising trust powers or of an investment counseling firm or brokers for the purchase and sale of securities, commission recapture and transition services and may pay reasonable compensation for such services

from funds administered by the retirement board. The terms of any such investment management services contract shall incorporate the statutory requirements for investment of funds under the retirement board's jurisdiction.

F. Except as provided in the Public Employees Retirement Act, a member of the retirement board, employee of the retirement board or any person connected with the retirement board in any manner shall not:

- (1) have any direct or indirect interest in the gains or profits of any investment made by the retirement board;
- (2) receive any direct or indirect pay or emolument for services provided to the retirement board or the association;
- (3) directly or indirectly, for the member, employee or person, for themselves or as agent or partner of others, borrow any of the funds or deposits of the association or in any manner use them except to make current and necessary payments authorized by the retirement board; or
- (4) become an endorser or surety or become in any manner an obligor for money of the retirement board loaned or borrowed.

Transition Management Services
Contract No.
Term:

[SAMPLE]

STATE OF NEW MEXICO
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
PROFESSIONAL SERVICES CONTRACT

(The Investment and Operational Guidelines may be amended solely at the discretion of PERA, to conform, where appropriate, to the specific product proposed by the successful Offeror(s).)

[This Appendix will be attached to and incorporated by reference into any contract entered into between PERA and the selected Contractor.]

THIS AGREEMENT is made and entered into by and between the State of New Mexico, Public Employees Retirement Association, hereinafter referred to as (the "Agency") and CONTRACTOR NAME hereinafter referred to as (the "Contractor"), and is effective as of the date set forth below upon which it is executed by the Parties.

IT IS AGREED BETWEEN THE PARTIES:

1. **Scope of Work [to be further detailed in PERA's sole discretion]**
 - A. **Transition Management Services.**

The Contractor shall provide PERA with transition management services as further described in this Agreement, including the Investment and Operational Guidelines attached hereto as Exhibit B and all other attached exhibits and schedules (the "Agreement"). The Contractor acknowledges that PERA shall not be restricted in any way from obtaining similar services to those provided hereunder from entities other than Contractor for a PERA approved multiple provider spring-fed pool. This Agreement does not guarantee to the Contractor any particular volume or amount of business, and is limited to such work as PERA may refer to Contractor in its sole discretion after a request for bids process. The Contractor shall provide such transition management services for the liquidation or restructuring of portfolios of securities and assets that constitute an account at PERA's custodian (each an "Account") in accordance with the terms and conditions of this Agreement, the rules, objectives, and guidelines established by PERA and set forth in a Transition Notice, PERA's Investment Policy, and specific directives or instructions issued by PERA to the Contractor, including, but not limited to, the warranties attached hereto as Exhibit A, and the Investment and Operational Guidelines attached hereto as Exhibit B. To the extent there is a conflict between the terms and conditions of this Agreement and the rules, objectives, and guidelines established by PERA and set forth in a

Transition Notice, PERA's Investment Policy, and specific directives or instructions issued by PERA to the Contractor that are referenced above, this Agreement shall control.

PERA agrees that it shall submit a separate transition notice attached hereto at Exhibit C ("Transition Notice") on behalf of each Account for which it requests Contractor to undertake the transition management services hereunder and that each such Transition Notice delivered by PERA to Contractor shall be incorporated into and made a part of this Agreement. PERA further acknowledges that with respect to an Account that is the subject of a Transition Notice, Contractor shall provide its transition management services to such Account subject to and in accordance with the terms, conditions, procedures and policies of this Agreement.

Under no circumstances is the Contractor permitted to have custody of PERA assets under the Agreement.

1. Contractor shall provide PERA with transition management services for liquidating or restructuring an Account in a cost efficient and flexible manner. These consulting services include, in part, reviewing the Guaranteed List and Target Portfolio List (each as defined in Exhibit B attached hereto), analyzing the projected transaction volumes and the number of securities positions in the liquidation or restructuring, examining potential trading costs, including a review of using off-exchange trading networks and effecting securities trades and any related foreign exchange transactions.

2. Prior to executing a transition or rebalance, Contractor shall deliver a pre-trade analysis prior to the commencement of all transitions/rebalances. The pre-trade analysis reporting shall specify anticipated strategies to be used, clearly identify estimated costs due to explicit expenses, including commissions and taxes, with a summary of anticipated implementation shortfall based on the T-Standard methodology with a one-standard deviation estimated range of outcomes.

3. PERA acknowledges and agrees that Contractor, in its capacity as the trading advisor under this letter agreement is acting as a fiduciary as defined in Employee Retirement Income Security Act of 1974, as amended ("ERISA") to PERA, but has no authority, responsibility or control over, and has provided no investment advice with respect to, the decision by PERA to transition the securities and/or assets constituting an Account or the selection of any Target Portfolio List. PERA further expressly acknowledges and agrees that Contractor is entitled to rely on the accuracy of any Guaranteed List, any Target Portfolio List and any other information provided in writing, including electronic mail, to it by PERA, the Custodian or any other third party acting at the request or on behalf of PERA or the Account. Contractor shall be responsible only for cash positions that are reported on the Guaranteed List.

PERA hereby represents and warrants that the Custodian has been authorized to follow the trading instructions given by Contractor in its role as trading advisor hereunder, including, and without limitation, the delivery of securities or cash to settle any securities or foreign exchange transactions.

4. Within fifteen (15) business days of the completion of a liquidation or restructuring on behalf of an Account, Contractor shall provide to PERA a post-trade summary report of the entire liquidation or restructuring, including details of all Cross-Trades and Market transactions executed by the Contractor and confirming therein that all available securities and/or other assets have been transitioned in accordance with instructions from PERA. Contractor shall also report the performance of any liquidation or restructuring and the costs associated therewith as determined by the implementation shortfall. The responsibilities of Contractor with respect to any liquidation or restructuring of an Account shall in all respects terminate upon its issuance of such report to PERA, unless PERA objects to the contents of such report within ten (10) business days thereof. The Contractor shall also provide such other oral or written reports as are reasonably requested by PERA. Additionally, Contractor is required to incorporate both the T-Standard (based on T-1 close) and the Volume Weighted Average Price (“VWAP”) statistics in these reports.

5. In PERA’s sole discretion, Contractor shall, at the Contractor’s sole expense, deliver one transition trade cost analysis report per annum from a vendor mutually selected by PERA and Contractor for a PERA transition/rebalance. Contractor acknowledges and agrees that PERA retains the sole discretion of determining which transition/rebalance shall be evaluated by such designated transition trade cost analysis provider.

6. At such times as directed by PERA, the Contractor shall, at the Contractor’s sole expense, have a representative attend periodic meetings of the PERA Board or the PERA Investment Committee at the offices of PERA or such other location designated by PERA. The Contractor shall report to PERA on transition matters as requested by PERA.

7. PERA shall furnish the Contractor such evidence of authority of the persons authorized to act on behalf of PERA, together with their specimen signatures, as the Contractor may request.

8. The Contractor warrants that it has a positive net worth at the effective date of the Agreement and agrees that it shall maintain a positive net worth throughout the term of the Agreement or any extension thereof. Furthermore, the Contractor shall notify PERA immediately, in writing, of any material, adverse change in the Contractor’s net worth.

9. PERA represents that it has all necessary power and authority to enter into and perform this Agreement and that this Agreement is binding on PERA in accordance with its terms.

10. The Contractor agrees to provide PERA representatives with reasonable access, at reasonable times and intervals, to the Contractor’s operational headquarters or other such offices where the Contractor services PERA for the purpose of making site visits and inspections; provided such access is subject to Contractor’s reasonable security policies and procedures and limited to one time per year and does not interfere with Contractor’s normal business operations.

11. To help the government fight the funding of terrorism and money laundering activities, applicable law requires all financial institutions to obtain, verify and record information that identifies each client who opens an account. This means that Contractor will require that PERA

and each Account subject to a Transition Notice provide their full name, business address, tax identification number and such other information that will allow Contractor to identify PERA and the Account. Contractor may also contact PERA to provide additional identifying information, if necessary.

2. Compensation Payable to it by PERA:

A. Management Fee and Conditions of Payment.

For the transition management services rendered by the Contractor to PERA under the Agreement, Contractor (as defined in Exhibit B) shall receive the fees/commissions in accordance with the applicable Transition Notice. For each proposed transition/rebalance, Contractor will provide an accounting for all sources of compensation, including but not limited to commissions, fees, introductory brokerage fees, and other compensation, derived either directly or indirectly from each proposed transition/rebalance.

B. Payment of Taxes.

The Contractor shall pay all state and federal taxes assessed on the compensation received by Contractor under the Agreement and shall identify and pay those taxes under the Contractor's federal and state identification number(s).

3. Term.

This Contract shall not be effective or binding unless approved in writing by the parties. This Contract shall commence on June 1, 2011 and terminate on May 31, 2019 unless the parties hereto mutually agree to extend the term of the Contract or unless the Contract has been terminated sooner pursuant to Paragraph 4(A).

4. Termination.

A. Termination. This Agreement may be terminated by either of the parties hereto upon written notice delivered to the other party at least ten (10) days prior to the intended date of termination although no such notice shall be effective for any outstanding liquidation or restructuring on behalf of an Account that is subject to a Transition Notice. By such termination, neither party may nullify obligations already incurred for performance or failure to perform prior to the date of termination. Notwithstanding the foregoing, this Agreement may be terminated immediately if, during the term of this Agreement, the Contractor or any of its officers, employees or agents that provide services under this Agreement, is indicted for fraud, embezzlement or other crime due to misuse of state funds or due to the Appropriations paragraph herein. THIS PROVISION IS NOT EXCLUSIVE AND DOES NOT WAIVE THE STATE'S OTHER LEGAL RIGHTS AND REMEDIES CAUSED BY THE CONTRACTOR'S DEFAULT/BREACH OF THIS AGREEMENT.

B. Termination Management. Immediately upon receipt by either PERA or the Contractor of notice of termination of this Agreement, the Contractor shall (except with respect to any outstanding liquidation or restructuring on behalf of an Account that is subject to a

Transition Notice): 1) not incur any further obligations for salaries, services or any other expenditure of funds under this Agreement without written approval of PERA; 2) comply with all reasonable directives issued by PERA in the notice of termination as to the performance of work under this Agreement; and 3) take such action as PERA shall direct for the protection, preservation, retention or transfer of all property titled to PERA and records generated under this Agreement. Notwithstanding anything contained herein, Contractor may retain any and all records as necessary to comply with record retention requirements.

5. Appropriations.

The terms of this Agreement are contingent upon sufficient appropriations and authorization being made by the Legislature of New Mexico for the performance of this Agreement. If sufficient appropriations and authorization are not made by the Legislature, this Agreement shall terminate immediately upon written notice being given by PERA to the Contractor although no such notice shall be effective for any outstanding liquidation or restructuring on behalf of an Account that is subject to a Transition Notice. PERA's decision as to whether sufficient appropriations are available shall be accepted by the Contractor and shall be final. If PERA proposes an amendment to the Agreement to unilaterally reduce funding (except with respect to any outstanding liquidation or restructuring on behalf of an Account that is subject to a Transition Notice), the Contractor shall have the option to terminate the Agreement or to agree to the reduced funding, within thirty (30) days of receipt of the proposed amendment.

6. Status of Contractor.

The Contractor and its agents and employees are independent contractors performing professional services for the Agency and are not employees of the State of New Mexico. The Contractor and its agents and employees shall not accrue leave, retirement, insurance, bonding, use of state vehicles, or any other benefits afforded to employees of the State of New Mexico as a result of this Agreement. The Contractor acknowledges that all sums received hereunder are reportable by the Contractor for tax purposes, including without limitation, self-employment and business income tax. Except as necessary to perform the transition management services described herein, the Contractor agrees not to purport to bind the State of New Mexico unless the Contractor has express written authority to do so, and then only within the strict limits of that authority.

7. Assignment.

The Contractor shall not assign or transfer any interest in this Agreement or assign any claims for money due or to become due under this Agreement without the prior written approval of PERA.

8. Subcontracting.

The Contractor shall not subcontract any portion of the services to be performed under this Agreement without the prior written approval of PERA. If otherwise disclosed by Contractor, PERA expressly acknowledges that Contractor may delegate certain of its responsibilities hereunder to one or more of its affiliates.

9. Final Payment/Release.

Final payment of the amounts due under this Agreement pursuant to the fees set forth in the Transition Notice for each proposed transition/rebalance shall operate as payment in full by PERA and the State of New Mexico of all obligations due and payable with respect to such transition/rebalance under this Agreement.

10. Confidentiality.

Any confidential information provided to or developed by the Contractor in the performance of this Agreement shall be kept confidential and shall not be made available to any individual or organization by the Contractor without the prior written approval of PERA. In addition, any information provided to Contractor during bidding process or for purposes of effecting each transition shall be kept strictly confidential. Notwithstanding, the Contractor may disclose confidential information to the extent necessary to facilitate trading with counterparties. The nondisclosure obligations provided for herein with respect to confidential information do not apply to information which (a) is or becomes a part of the public domain through no act or omission of Contractor; (b) can be shown to be already possessed by Contractor as of the date of disclosure or is independently developed by Contractor; or (c) is made available to Contractor on a non-confidential basis by a third party that Contractor reasonably believes has a right to do so.

11. Conflict of Interest; Governmental Conduct Act.

The Contractor warrants that it presently has no interest and shall not acquire any interest, direct or indirect, which would conflict in any manner or degree with the performance or services required under the Agreement. The Contractor certifies that the requirements of the Governmental Conduct Act, Sections 10-16-1 through 10-16-18, NMSA 1978, regarding contracting with a public officer or state employee or former state employee have been followed.

12. Amendment.

This Agreement shall not be altered, changed or amended except by instrument in writing executed by the parties hereto.

13. Merger.

This Agreement incorporates all the Agreements, covenants and understandings between the parties hereto concerning the subject matter hereof, and all such covenants, Agreements and understandings have been merged into this written Agreement. No prior Agreement or understanding, oral or otherwise, of the parties or their agents shall be valid or enforceable unless embodied in this Agreement.

14. Penalties for violation of law.

New Mexico criminal statutes impose felony penalties for illegal bribes, gratuities and kickbacks.

15. Equal Opportunity Compliance.

The Contractor agrees to abide by all federal and state laws and rules and regulations, and executive orders of the Governor of the State of New Mexico, pertaining to equal employment opportunity. In accordance with all such laws of the State of New Mexico, the Contractor assures that no person in the United States shall, on the grounds of race, religion, color, national origin, ancestry, sex, age, physical or mental handicap, or serious medical condition, spousal

affiliation, sexual orientation or gender identity, be excluded from employment with or participation in, be denied the benefits of, or be otherwise subjected to discrimination under any program or activity performed under this Agreement. If Contractor is found not to be in compliance with these requirements during the life of this Agreement, Contractor agrees to take appropriate steps to correct these deficiencies.

16. Applicable Law.

The laws of the State of New Mexico shall govern this Agreement, without giving effect to its choice of law provisions. Venue shall be proper only in a New Mexico court of competent jurisdiction in accordance with Section 38-3-1 (G) NMSA 1978. By execution of this Agreement, Contractor acknowledges and agrees to the jurisdiction of the courts of the State of New Mexico over any and all lawsuits arising under or out of any term of this Agreement.

17. Workers Compensation.

The Contractor agrees to comply with state laws and rules applicable to workers compensation benefits for its employees. If the Contractor fails to comply with the Workers Compensation Act and applicable rules when required to do so, this Agreement may be terminated by the Agency.

18. Records and Financial Audit.

The Contractor shall maintain detailed records regarding the nature and costs of services rendered during the Agreement's term and effect and retain them for a period of at least three (3) years from the date of final payment under this Agreement. The records shall be subject to inspection by the Agency, the Department of Finance and Administration and the State Auditor. In addition, PERA, the Department of Finance and Administration of New Mexico and the State Auditor shall have the right to audit applicable billings both before and after payment. All of the rights contained in this section shall be subject to the Contractor's reasonable security procedures.

19. Indemnification.

The Contractor shall defend, indemnify and hold harmless PERA, the PERA Board and their officers and employees from all actions, proceeding, claims, demands, costs, damages, attorneys' fees and all other liabilities and expenses of any kind from any source which may arise out of breach of the terms of this Agreement caused by the negligent act or failure to act of the Contractor, its officers, employees, servants, subcontractors or agents. In the event that any action, suit or proceeding related to the services performed by the Contractor or any officer, agent, employee, servant or subcontractor under this Agreement is brought against the Contractor, the Contractor shall, as soon as practicable notify the legal counsel of PERA and the Risk Management Division of the New Mexico General Services Department by certified mail. This indemnification shall survive the expiration or term of this Agreement.

20. Invalid Term or Condition.

If any term or condition of this Agreement shall be held invalid or unenforceable, the remainder of this Agreement shall not be affected and shall be valid and enforceable.

21. Enforcement of Agreement.

A party's failure to require strict performance of any provision of this Agreement shall not waive or diminish that party's right thereafter to demand strict compliance with that or any other provision. No waiver by a party of any of its rights under this Agreement shall be effective unless express and in writing, and no effective waiver by a party of any of its rights shall be effective to waive any other rights.

22. Notices.

Any notice required to be given to either party by this Agreement shall be in writing and shall be delivered in person, by courier service or by U.S. mail, either first class or certified, return receipt requested, postage prepaid, as follows:

Joelle B. Mevi, CGFM
Chief Investment Officer
New Mexico PERA
P.O. Box 2123
Santa Fe, NM 87504-2123

[Contractor]

23. Authority.

If Contractor is other than a natural person, the individual(s) signing this Agreement on behalf of Contractor represent and warrant that he or she has the power and authority to bind Contractor, and that no further action, resolution, or approval from Contractor is necessary to enter into a binding contract.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the last signature date below.

**PUBLIC EMPLOYEES RETIREMENT
ASSOCIATION OF NEW MEXICO**

By: _____
TERRY SLATTERY, CEBS
Executive Director

Date: _____

CONTRACTOR

By: _____

Date: _____

Title: _____

APPROVED AS TO FORM AND LEGAL SUFFICIENCY:

By: _____
SUSAN G. PITTARD
Special Assistant Attorney General

Date: _____

Services performed by Contractor, are performed out-of-state and therefore, Contractor is not required to be registered with the Taxation & Revenue Department of the State of New Mexico to pay gross receipt and compensating taxes.

STATE OF NEW MEXICO
TAXATION & REVENUE DEPARTMENT

By: _____

Date: _____

Exhibit A to Contract

WARRANTIES

TRANSITION MANAGEMENT SERVICES

- E. Contractor warrants that during the performance of all services under the contract as contemplated it will act as a fiduciary to the Trustees of the Public Employees Retirement Association of the State of New Mexico. To the extent that Contractor believes that it is in the best interests of the Public Employees Retirement Association of the State of New Mexico to execute a transaction in a principal counterparty (i.e. non-Fiduciary) capacity, Contractor will obtain prior written authorization from PERA for each such transaction and each request for authorization shall be accompanied by verifiable representation in written format from Contractor that the terms offered are at least as favorable as those generally available in arms-length transactions between unrelated parties.
- F. Contractor warrants that it meets the bonding requirements provided by Section 412 of the Employment Retirement Income Security Act of 1974 (ERISA) or that it carries at least an equivalent fidelity bond applicable to Contractor's actions under the Contract (unless exempt, and explanation of exemption is attached).
- G. Contractor warrants that it will not delegate its fiduciary responsibilities assumed pursuant to the Contract.
- H. Contractor warrants that it has completed, obtained, and performed all registrations, filings, approvals, authorizations, consents or examinations, required by a government or governmental authority, including the State of New Mexico, for acts contemplated by the Contract.

Exhibit B to Contract

(SAMPLE)
NEW MEXICO PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
INVESTMENT AND OPERATIONAL GUIDELINES
FOR [CONTRACTOR(S) SELECTED] FOR
TRANSITION MANAGEMENT SERVICES

(The Investment and Operational Guidelines may be amended solely at the discretion of PERA, to conform, where appropriate, to the specific product proposed by the successful Offeror(s).)

[This Appendix will be attached to and incorporated by reference into any contract entered into between PERA and the selected Contractor.]

PROGRAM OBJECTIVE:

The objective of the Transition Management Services program is to obtain cost effective and risk-managed portfolio transition advisory services and related trading activities.

The contractor shall conform to the following general guidelines:

1. **Benchmark:** Portfolio transition events will be benchmarked relative to T-1 close according to an implementation shortfall methodology such as the “T-Standard”.
2. **Target Shortfall:** Portfolio transition events will be benchmarked relative to pre-trade mean cost estimates with a one-standard deviation confidence interval estimate. Transition outcomes outside of one standard deviation (either positive or negative) must be accompanied by a written executive summary discussing the circumstances under which such performance experience occurred. PERA reserves the right to require such written summaries for all transition events.

GENERAL GUIDELINES

All portfolio restructuring activities performed by the Transition Manager (hereinafter the “Contractor”) described in the attached Professional Services Agreement No. _____ (“Agreement”) between the Contractor and the Public Employees Retirement Association of New Mexico (“PERA”) are subject to the Contractor’s compliance with NMSA 1978, Sections 10-11-132 and 10-11-133 (hereinafter the “Statutes”), and the PERA Investment Policy (hereinafter, the “Policy”) as they may be amended from time to time.

PERA will run a multiple provider spring-fed pool and shall not be restricted in any way from obtaining similar services to those provided hereunder from entities other than Contractor.

Transition strategy including internal/external crossing activities, agency execution and the balance between such venues (with the sole exception of principal trades without previous written approval from PERA) and timing of purchase and sales are delegated to the Contractor, subject to the provisions of the Agreement, the Statutes and the Policy.

The Contractor shall have full responsibility for the exercise of all rights appurtenant to any securities under its management. Contractor, in its capacity as the trading advisor, has no authority, responsibility or control over, and has provided no investment advice with respect to, the decision by PERA to transition the securities and/or assets constituting an Account or the selection of any Target Portfolio List.

Transactions that involve a broker or dealer acting as a “principal”, where such broker or dealer is also the Contractor making the transaction, are prohibited unless prior written approval is provided under the following terms and conditions:

- To the extent that Contractor believes that it is in the best interests of PERA to execute a transaction in a principal counterparty (i.e. non-Fiduciary) capacity, Contractor will obtain prior written authorization from PERA for each such transaction and each request for authorization shall be accompanied by verifiable representation in written format from Offeror that the terms offered are at least as favorable as those generally available in arms-length transactions between unrelated parties

GUIDELINES FOR ASSETS TO BE TRANSITIONED:

PERA will instruct the Custodian to provide Contractor with a list of the securities and/or assets held in an Account (the "Guaranteed List") as of the close of business on the date that is set forth in the Transition Notice as the date on which the consulting services hereunder are to begin on behalf of such Account (the “Transition Commencement Date”). PERA also will deliver or cause to be delivered to Contractor a list of all securities and/or other assets that it requires as part of the new portfolio being funded by or on behalf of PERA (the “Target Portfolio List”). PERA will ensure that Contractor receives either a share value or a weighting within the total new portfolio for each security and/or other asset constituting the Target Portfolio List.

Contractor shall determine, based on the information set forth on the Guaranteed List and the Target Portfolio List, the securities and/or other assets currently held in the Account that may be transferred or accepted “in kind” (the “Retained Securities”). Contractor shall then be authorized to (a) retain, immediately upon the initiation of the transition, all of the Retained Securities and (b) arrange for the sale of all securities and/or other assets remaining in the Account after the foregoing retention and, with the proceeds from such sales, purchase the remaining new securities set forth on the Target Portfolio List and arrange for their delivery as directed by PERA.

With respect to the securities and/or other asset holdings in an Account, Contractor shall only be responsible for trading or otherwise liquidating securities that are readily marketable and for which, in the sole discretion of Contractor, sufficient liquidity exists.

INTERNAL CROSSING GUIDELINES:

PLACEHOLDER FOR INTERNAL CROSSING GUIDELINES (IF APPLICABLE)

EXTERNAL CROSSING GUIDELINES:

PLACEHOLDER FOR EXTERNAL CROSSING GUIDELINES (IF APPLICABLE)

MARKET TRADING GUIDELINES:

PERA hereby authorizes and directs Contractor, subject to duties of best execution, to place all equity securities orders on behalf of an Account that are not executed in a Cross-Trade, as described above, through [EXECUTING BROKER] for execution. These equity securities orders will be executed by Contractor and its affiliated broker dealers either in open market transactions, including through the use of external crossing networks, or in internal agency cross transactions (each, an "**Equity Market Transaction**").

PERA hereby authorizes and directs Contractor, subject to duties of best execution, to place all fixed income securities orders through [EXECUTING BROKER] in a manner whereby such affiliated broker dealers would act as the riskless principal counterparty between an Account subject to a Transition Notice and third party market counterparties on the other side of the transaction (each, a "**Fixed Income Market Transaction**"). PERA authorizes and directs that such [EXECUTING BROKER] may accept compensation in lieu of a commission in the form of a spread between the sale or purchase price of the fixed income security sold or bought by the Account subject to a Transition Notice and the purchase or sale price of the fixed income security paid or received, as applicable, by the third party market counterparties on the other side of the transaction. The amount of compensation in the form of a spread permitted to be received by [EXECUTING BROKER] in any such riskless principal transaction involving a fixed income security shall be specifically identified in the Transition Notice.

SETTLEMENT DATE ADJUSTMENT

PERA may direct Contractor in the relevant Transition Notice for an account to arrange for a shortened settlement date with respect to certain securities sale transactions executed on behalf of an Account. The Contractor and its applicable affiliated broker-dealer may agree, each in its sole discretion, to accommodate such requests. Financing costs for shortened settlement will be explicitly defined and included within explicit costs of the transition within commissions.

FUTURES TRANSACTION GUIDELINES:

PERA may direct Contractor in the relevant Transition Notice for an Account to attempt to maintain broad market exposure to one or more asset classes, during the course of the liquidation

or restructuring program described therein, by investing in exchange-traded futures contracts, including equity, fixed income or commodity futures, on margin and otherwise, on behalf of such Account (a “Futures Overlay”). Contractor shall not cause any futures contract to be executed in connection with a Futures Overlay except as specifically directed by PERA in writing in the relevant Transition Notice or in writing prior to the initiation of, or during the course of, the liquidation or restructuring program.

PERA understands and agrees that Contractor shall not provide any investment advice regarding whether to engage in futures transactions or to acquire any particular futures contract. PERA hereby authorizes and directs Contractor to cause any and all transactions in futures contracts on behalf of an Account to be executed through [EXECUTING BROKER (if applicable)].

PERA acknowledges and agrees that Contractor will cause all futures contracts executed in connection with a Futures Overlay to be executed with any number of counterparties, and may do so through one or more foreign brokers which are affiliates of Contractor, in accordance with the written instructions of PERA set forth in a separate writing or in the relevant Transition Notice, but PERA hereby acknowledges and agrees that all such futures trades shall be maintained in an account with [CLEARING BROKER], a registered futures commission merchant. [CLEARING BROKER] need not be provided with copies of the relevant Transition Notice or any such separate writing and shall be entitled to accept for clearing and/or carrying in the Futures Account, for the risk of PERA and the Account, all futures trades caused to be executed by Contractor, without regard to whether such trades are appropriate for a Futures Overlay or otherwise conform to the relevant Transition Notice or any such separate writing. PERA hereby confirms the appointment of Contractor, as broker, agent and attorney-in-fact for PERA and any Account subject to the relevant Transition Notice, for the sole purpose of opening and making transactions in one or more futures accounts (each, a “Futures Account”) for which Contractor will act as introducing broker and [CLEARING BROKER] will act as carrying broker. The Contractor acknowledges that PERA reserves all immunities, defenses, rights or actions arising out of its sovereign status, including those under the Eleventh Amendment to the United States Constitution, to which it might be entitled. In no event shall any power-of-attorney be construed to grant any person or entity the power or authority to execute any document that waives any such immunities, defenses, rights or actions arising out of such status.

Contractor shall have authority, in accordance with and following specific direction from PERA and in its capacity as agent hereunder, to cause funds to be deposited in and withdrawn from the Futures Account and to act for PERA and an Account in the same manner and with the same force and effect as PERA or the Account might or could do with respect to the Futures Account and all transactions therein as well as with all other things necessary or incidental thereto.

PERA agrees and acknowledges that [CLEARING BROKER] will be entitled to charge its commissions and fees to the Futures Account for the foregoing transactions for which [CLEARING BROKER] is acting as the carrying broker and that Contractor, as introducing broker, may receive per-transaction compensation from [CLEARING BROKER] in the amount set forth in the relevant Transition Notice.

PERA understands the nature of futures and options trading, that initial margin will be required to be posted for any futures positions in the Futures Accounts and that [CLEARING BROKER] may call for additional margin and close out positions if such additional margin is not promptly posted. PERA agrees to provide to Contractor for deposit into the Futures Account any initial or additional margin required to be posted therein.

All transactions for PERA and an Account shall be subject to the regulations of all applicable federal, state and self-regulatory agencies, including, but not limited to, the various exchanges and the constitutions, rules and customs of the exchanges and contract markets and their respective clearing houses, if any where executed or to which the transactions relate and, where applicable, the Commodity Exchange Act and all rules, regulations and interpretations promulgated thereunder (collectively, the "Applicable Law or Regulations").

PERA represents that (a) it has all necessary power and authority to enter into and perform this Agreement and that this Agreement is binding on PERA in accordance with its terms; (b) absent a separate written agreement with PERA with respect to "give-ups," [CLEARING BROKER] may, but shall not be obligated to, accept from other brokers contracts executed by such brokers on a contract market, board of trade or other market for PERA and proposed to be "given-up" to [CLEARING BROKER] for clearance and/or carrying in the Futures Account; and (c) it may lawfully enter into the transactions contemplated by this Agreement and that such transactions are suitable for an Account that is the subject of a Transition Notice. On request, PERA will supply Contractor and/or [CLEARING BROKER] with such documentation as is reasonably needed to confirm the accuracy of these representations.

FOREIGN EXCHANGE GUIDELINES:

During the course of any liquidation or restructuring program described herein, certain ancillary foreign exchange transactions on behalf of an Account may be required in connection with the purchase or sale of, or receipt of dividend or other income with respect to, securities denominated in currencies other than United States Dollars. PERA hereby appoints Contractor to act as agent for and on behalf of each Account subject to a Transition Notice in effecting all such foreign exchange transactions through independent financial institutions.

PRE-TRADE AND POST-TRADE REPORTING

As part of the bidding process, Contractor will be provided representative portfolio details or net trading positions and an initial pre-trade report and project plan will be requested. The initial pre-trade, review of proposed strategy, and further inquiries and due diligence on the part of PERA or its authorized agent will form the basis for evaluation of a bench member's ability to provide services to PERA under the terms of this contract.

Contractor will be required to issue a final pre-trade report in advance of market open on the first trading day, which specifies the anticipated strategy to be used, clearly identifies anticipated liquidity sources, estimated costs due to explicit expenses (commissions, taxes, fees, etc.) as well as implicit expenses (spread costs, market impact, opportunity cost, etc.) with a summary of

anticipated implementation shortfall based on the T-Standard methodology with a one-standard deviation estimated range of outcomes.

Within fifteen (15) business days of the completion of a liquidation or restructuring, Contractor will provide a summary report of the entire liquidation or restructuring, including details of all Cross-Trades (whether in-kind, internal, or external), Market Transactions and Foreign Exchange transactions executed by Contractor and confirming therein that all available securities and/or other assets have been transitioned in accordance with instructions from the Client. At the request of Client, a comprehensive accounting of all transactions (including equity, fixed income and foreign exchange transactions as applicable) will be provided to Client or its designated agent in electronic format to allow for the potential benchmarking of execution abilities. Contractor shall also report the performance of any liquidation or restructuring and the costs associated therewith as determined by the implementation shortfall according to the T-Standard with an appropriate comparison made to the pre-trade report issued in advance of the transition event. Transition Manager further commits to provide written commentary in an executive summary format to Client, which may be its Board of Trustees or its staff members, on the completion of each transition.

GENERAL

Unless otherwise specifically authorized in writing by PERA, no trades involving the use of directed commissions (soft dollars) will be allowed.

CLARIFICATION OR AMENDMENTS TO THE GUIDELINES

These Investment and Operational Guidelines (“Guidelines”) are not intended to cover every foreseeable situation. If, at any time, these Guidelines do not adequately cover an investment opportunity, the Contractor shall contact PERA for additional investment direction or to ask PERA whether an amendment to the Guidelines is appropriate

Acknowledged: NAME OF SUCCESSFUL OFFEROR

By: _____
Name of Signatory on behalf of Offeror

By: _____
Title

Date: _____

Acknowledged By

Contractor

By: _____

Title: _____

Date: _____

**EXHIBIT C
FORM OF TRANSITION NOTICE**

To: CONTRACTOR (“Contractor”)

From: The Public Employees Retirement Association of New Mexico (“PERA” or the “Fund”) and with respect to a certain portfolio of securities and/or assets belonging to the Fund designated as Account Number [] (the “Account”) at its Custodian.

Transition Commencement Date: []

Transition Agreement: The undersigned appoints Contractor to manage the liquidation or restructuring of the Account on the terms and subject to the conditions of the State of New Mexico Public Employees Retirement Association Transition Management Services Contract, dated [CONTRACT DATE] between Contractor and the undersigned (as amended and in effect from time to time, the “Transition Management Agreement”).

Futures and Equity Index Overlay Requirements:

(NOTE: IF PERFORMING FUTURES OR EQUITY INDEX OVERLAY FOR A TRANSITION, INCLUDE ONLY APPLICABLE CHOICE BELOW AND DELETE ALL OTHERS WHEN SUBMITTING TRANSITION NOTICE. IF NO FUTURES OR EQUITY INDEX OVERLAY CONTEMPLATED, DELETE ALL LANGUAGE BELOW AND INSERT “NOT APPLICABLE”)

Transition With Initial Futures Overlay. PERA hereby directs Contractor, on [], which is prior to the commencement of the restructuring of the Account that is the subject of this Transition Notice, to (i) purchase long index futures contracts for the benchmark indices indicated below, in accordance with the percentages set forth opposite each such index, in sufficient quantity to provide exposure to those benchmark indices in an aggregate notional amount equal to, or as reasonably close thereto as is practicable given the pricing for such index futures contracts, the total proceeds expected to be received from the sale of the securities and/or assets of the Fund comprising the Account and identified to Contractor on the Guaranteed List, in all cases based on prevailing market prices and currency exchange rates and estimated expenses (the “Estimated Portfolio Value”) and (ii) sell short index futures contracts for the benchmark indices indicated below, in accordance with the percentages set forth opposite each such index, in sufficient quantity to decrease exposure to those benchmark indices in an aggregate notional amount equal to, or as reasonably close thereto as is practicable given the pricing for such index futures contracts, the Estimated Portfolio Value.

Long Index Futures Contracts:

Benchmark Index: [] – []%
Benchmark Index: [] – []%

Short Index Futures Contracts:

Benchmark Index: [] – []%
Benchmark Index: [] – []%

PERA then hereby directs that, beginning on the date of the commencement of the restructuring of the Account that is the subject of this Transition Notice, which commencement date shall be delivered to Contractor in writing through delivery of amended Transition Notice, as securities and/or assets of the Account are liquidated in accordance with the terms hereof, Contractor concurrently (i) sell to close out the long index futures contracts for the benchmark indices indicated above, in accordance with the percentages set forth opposite each such index, in an aggregate notional amount equal to, or as reasonably close thereto as is practicable given the pricing for such index futures contracts, the total proceeds expected to be received from the sale of the relevant securities and/or assets and (ii) buy to cover the short index futures contracts for the benchmark indices indicated above, in accordance with the percentages set forth opposite each such index, in an aggregate notional amount equal to, or as reasonably close thereto as is practicable given the pricing for such index futures contracts, the total proceeds expected to be received from the sale of the relevant securities and/or assets. PERA hereby agrees and acknowledges that for a benchmark index where the market for purchasing or selling the relevant index futures contracts is not open for trading during normal trading hours in the United States or at the time of any liquidation of securities and/or assets of the Account, Contractor shall be deemed to have “concurrently” purchased such index futures contracts if it purchases or sells such index futures contracts as close as reasonably possible to the opening of such market on the following business day in such local market.

If the length of the restructuring of the Account that is the subject of this Transition Notice is such that Contractor has not been instructed to close out any index futures contract entered into hereunder prior to the expiration of such index futures contract or PERA has not otherwise instructed Contractor to commence the restructuring of the Account that is the subject of this Transition Notice prior to the expiration of such index futures contract, then in each case PERA hereby directs Contractor to sell each outstanding long index futures contract and purchase any short index futures contract within the five business day period prior to its expiration and purchase or sell, as applicable, an identical index futures contract that is the “front month contract” for such benchmark index in an amount equal, or as reasonably close thereto as is practicable given the pricing for such index futures contracts, to the notional value of the expiring index futures contract. Contractor shall not invest in index futures contracts in connection with the liquidation except as specifically set forth herein.

ALTERNATIVE FOR ANY INDEX WITH NO SINGLE FUTURES INDEX CONTRACT

Benchmark Index: [] – []%. There is no single index futures contract readily available or sufficiently liquid that covers the foregoing benchmark index. Accordingly, Contractor is hereby instructed to use the recommendations and weightings of an industry standard portfolio optimization tool that may be agreed upon in writing by PERA and Contractor, to create a basket of other index future contracts that is reasonably designed to track the performance of the foregoing benchmark index with the tightest tracking error to such benchmark index as is determined by such system. PERA acknowledges and agrees that the tool utilized by Contractor is a recognized industry standard portfolio optimization software tool and that reliance by Contractor on such tool, or any other industry standard portfolio optimization tool that may be agreed upon in writing by PERA and Contractor, is reasonable with respect to the services being provided hereunder. Contractor shall have no liability hereunder to PERA or to any Account that is the subject of a Transition Notice or to any other third party for relying on the tool used by Contractor, or such other industry standard portfolio optimization tool that may be agreed upon in writing by PERA and Contractor, for the purposes described above. Notwithstanding the above, PERA acknowledges and agrees that

Contractor may exclude from any recommendations of the tool used by Contractor, or any other industry standard portfolio optimization tool that may be agreed upon in writing by PERA and Contractor, any index futures contracts that are not permissible investments under applicable law, including the Commodities Exchange Act and the rules and regulations of the Commodity Futures Trading Commission.

- Transition Without Target Portfolio List - Futures Contracts Only.* Contractor is hereby instructed to liquidate all securities and/or assets of the Fund comprising the Account and identified to Contractor on the Guaranteed List. PERA hereby acknowledges and agrees that the liquidation of the Account subject to this Transition Notice does not involve a Target Portfolio List. PERA hereby directs that, as securities and/or assets of the Account are liquidated in accordance with the terms hereof, Contractor concurrently purchase index futures contracts for the benchmark indices indicated below, in accordance with the percentages set forth opposite each such index, in sufficient quantity to provide exposure to those benchmark indices in an aggregate notional amount equal to, or as reasonably close thereto as is practicable given the pricing for such index futures contracts, the total proceeds expected to be received from the sale of such securities and/or assets, based on prevailing market currency exchange rates and estimated expenses. PERA hereby agrees and acknowledges that for a benchmark index where the market for purchasing the relevant index futures contracts is not open for trading during normal trading hours in the United States or at the time of any liquidation of securities and/or assets of the Account, Contractor shall be deemed to have “concurrently” purchased such index futures contracts if it purchases such index futures contracts as close as reasonably possible to the opening of such market on the following business day in such local market.

PERA shall instruct Contractor in writing of the date on which PERA requires that Contractor close out any index futures contracts entered into hereunder. If PERA does not properly instruct Contractor to close out any index futures contract entered into hereunder prior to the expiration of such index futures contract, PERA hereby directs Contractor to sell each outstanding index futures contract within the five business day period prior to its expiration and purchase an identical index futures contract that is the “front month contract” for such benchmark index in an amount equal, or as reasonably close thereto as is practicable given the pricing for such index futures contracts, to the notional value of the expiring index futures contract. Contractor shall not invest in index futures contracts in connection with the liquidation except as specifically set forth herein.

Benchmark Index: [] – []%
Benchmark Index: [] – []%

- Transition With Target Portfolio List - Futures Contracts Only With Residual Cash.* Contractor is hereby instructed to purchase index futures contracts for the benchmark indices indicated below, in accordance with the percentages set forth opposite each such index, in sufficient quantity to provide exposure to those benchmark indices in an aggregate notional amount equal to, or as reasonably close thereto as is practicable given the pricing for such index futures contracts, any residual cash position that is not used by PERA to purchase securities and/or other assets that it requires as part of a new portfolio being funded and identified to Contractor on a Target Portfolio List. The foregoing index futures contracts shall be purchased as close as reasonably practicable to the commencement of the relevant restructuring based on cash expected to be available at the completion of such restructuring after taking into account estimated transaction expenses.

PERA hereby agrees and acknowledges that for a benchmark index where the market for purchasing the relevant index futures contracts is not open for trading during normal trading hours in the United States, Contractor shall purchase such index futures contracts as close as reasonably possible to the opening of such market on the following business day in such local market. PERA shall instruct Contractor in writing of the date on which PERA requires that Contractor close out any index futures contracts entered into hereunder. If PERA does not properly instruct Contractor to close out any index futures contract entered into hereunder prior to the expiration of such index futures contract, PERA hereby directs Contractor to sell each outstanding index futures contract within the five business day period prior to its expiration and purchase an identical index futures contract that is the “front month contract” for such benchmark index in an amount equal, or as reasonably close thereto as is practicable given the pricing for such index futures contracts, to the notional value of the expiring index futures contract. Contractor shall not invest in index futures contracts in connection with the restructuring except as specifically set forth herein.

Benchmark Index: [] – []%
Benchmark Index: [] – []%

ALTERNATIVE FOR ANY INDEX WITH NO SINGLE FUTURES INDEX CONTRACT:

Benchmark Index: [] – []%. There is no single index futures contract readily available or sufficiently liquid that covers the foregoing benchmark index. Accordingly, Contractor is hereby instructed to use the recommendations and weightings of the tool used by Contractor, or any other industry standard portfolio optimization tool that may be agreed upon in writing by PERA and Contractor, to create a basket of other index future contracts that is reasonably designed to track the performance of the foregoing benchmark index with the tightest tracking error to such benchmark index as is determined by such system. PERA acknowledges and agrees that the tool used by Contractor is a recognized industry standard portfolio optimization software tool and that reliance by Contractor on such tool, or any other industry standard portfolio optimization tool that may be agreed upon in writing by PERA and Contractor, is reasonable with respect to the services being provided hereunder. Contractor shall have no liability hereunder to PERA or to any Account that is the subject of a Transition Notice or to any other third party for relying on the tool used by Contractor, or such other industry standard portfolio optimization tool that may be agreed upon in writing by PERA and Contractor, for the purposes described above. Notwithstanding the above, PERA acknowledges and agrees that Contractor may exclude from any recommendations of the tool used by Contractor, or any other industry standard portfolio optimization tool that may be agreed upon in writing by PERA and Contractor, any index futures contracts that are not permissible investments under applicable law, including the Commodities Exchange Act and the rules and regulations of the Commodity Futures Trading Commission.

Transition Without Target Portfolio List – Replicate and Rebalance Equity Index With Full Basket. PERA hereby acknowledges and agrees that the liquidation of the Account subject to this Transition Notice does not involve a Target Portfolio List. Accordingly, Contractor is hereby directed to identify a basket of securities necessary to fully replicate the benchmark index indicated below, with the number of shares of each security to be based on (i) the aggregate notional value of all securities and/or assets of the Fund comprising the Account and identified to Contractor on the Guaranteed List and (ii) the relative weightings of all such securities within the benchmark index as published by the relevant benchmark index vendor or the tool used by Contractor as of the close of business on the day before the commencement of the relevant restructuring. The foregoing basket of securities identified by Contractor shall be deemed to constitute the

Target Portfolio List for all purposes of the Transition Management Agreement and shall be deemed directed and approved by PERA and shall constitute information provided by PERA for purposes thereof. Contractor shall also, until instructed otherwise, monitor daily and, if necessary based on the information published by the relevant benchmark index vendor or the tool used by Contractor as of the close of business on each day, rebalance such basket of securities to appropriately replicate the benchmark index. Contractor also shall sweep, on a daily basis, all cash received by the Account in connection with any interest, dividends and other income items or payments to the money market or other cash investment vehicle identified by the Custodian. Notwithstanding the foregoing, Contractor may reinvest such cash in the performance of its obligations hereunder at such times and in such amounts as it, in its sole discretion, deems appropriate under the circumstances.

Benchmark Index: [] - 100%

Transition Without Target Portfolio List – Optimize To Equity Index With Pre-Determined Tracking Error Level. PERA hereby acknowledges and agrees that the liquidation of the Account subject to this Transition Notice does not involve a Target Portfolio List. Accordingly, Contractor is hereby directed to identify a basket of **[stock index future contracts, exchange traded funds and individual stocks]**¹ necessary to track the performance of the benchmark index indicated below with a tracking error at or less than [] percent ([]%), with the recommendations and weightings of any and all such securities in such basket to be based on information received from the tool used by Contractor or another industry standard portfolio optimization tool that may be agreed upon in writing by PERA and Contractor. The foregoing basket of securities identified by Contractor shall be deemed to constitute the Target Portfolio List for all purposes of the Transition Management Agreement and shall be deemed directed and approved by PERA and shall constitute information provided by PERA for purposes thereof. Contractor shall also, until instructed otherwise, monitor daily and, as necessary based on the foregoing information received from the tool used by Contractor or such other industry standard portfolio optimization tool that may be agreed upon in writing by PERA and Contractor, rebalance such basket of securities to maintain the tracking error to the benchmark index indicated below. Contractor also shall sweep, on a daily basis, all cash received by the Account in connection with any interest, dividends and other income items or payments to the money market or other cash investment vehicle identified by the Custodian. Notwithstanding the foregoing, Contractor may reinvest such cash in the performance of its obligations hereunder at such times and in such amounts as it, in its sole discretion, deems appropriate under the circumstances, giving appropriate consideration to, among other matters, the effect of such cash holding on the tracking error for the liquidation and restructuring contemplated hereby and the potential transaction costs associated with such reinvestment.

PERA acknowledges and agrees that the tool used by Contractor is a recognized industry standard portfolio optimization software tool and that reliance by Contractor on such tool, or any other industry standard portfolio optimization tool that may be agreed upon in writing by PERA and Contractor, is reasonable with respect to the services being provided hereunder. Contractor shall have no liability hereunder to PERA or to any Account that is the subject of a Transition Notice or any other third party for relying on the tool used by Contractor, or any other industry standard portfolio optimization tool that may be agreed upon in writing by PERA and Contractor, for the purposes described herein.

¹ This list should include the available universe of permissible instruments to be used to track the identified benchmark index.

PERA hereby agrees and acknowledges that for a benchmark index where the market for purchasing the relevant index futures contracts is not open for trading during normal trading hours in the United States, Contractor shall purchase such index futures contracts as close as reasonably possible to the opening of such market on the following business day in such local market. PERA shall instruct Contractor in writing of the date on which PERA requires that Contractor close out any index futures contracts entered into hereunder. If PERA does not properly instruct Contractor to close out any index futures contract entered into hereunder prior to the expiration of such index futures contract, PERA hereby directs Contractor to sell each outstanding index futures contract within the five business day period prior to its expiration and purchase an identical index futures contract that is the “front month contract” for such benchmark index in an amount equal, or as reasonably close thereto as is practicable given the pricing for such index futures contracts, to the notional value of the expiring index futures contract. Contractor shall not invest in index futures contracts in connection with the restructuring except as specifically set forth herein.

Benchmark Index: [] - 100%

ALTERNATIVE REPORTING OBLIGATIONS FOR THESE MANDATES

Contractor also will provide Client with a monthly summary report (i) comparing the performance of the portfolio contemplated hereby against the performance of the underlying benchmark indices, including any applicable cash benchmark and (ii) any other mandate specific information mutually agreed upon in writing by Contractor and PERA (e.g., portfolio holdings, country exposure versus index weightings, cash flows and balances).

Representations and Acknowledgements:

PERA hereby acknowledges that it has requested and received, within ninety (90) days prior to the date of this Transition Notice that it has received all relevant disclosure documentation and made necessary representations as described in the Transition Management Agreement.

Special Instructions/Restrictions:

Custodian Contact Information:

Manager Name	Title	Telephone Number	Facsimile Number

Transferring Manager Contact Information:

Manager Name	Title	Telephone Number	Facsimile Number

Receiving Manager Contact Information:

Manager Name	Title	Telephone Number	Facsimile Number

Transaction Fee Table:

United States Equities	<input checked="" type="checkbox"/> Cents Per Share
International Equities	<input checked="" type="checkbox"/> Basis Points of Market Value Traded
Fixed Income	<input checked="" type="checkbox"/> Basis Points of Par/Principal Value Traded
Futures Contracts	
Foreign Exchange Fees	
Shortened Settlement Fees	

Miscellaneous

The terms used but not otherwise defined herein shall have the meanings ascribed to them in the Transition Management Agreement. This Transition Notice shall be governed by the laws of The State of New Mexico. The effective date of this Transition Notice shall be the Transition Commencement Date set forth above.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO

By: _____

Name: _____

Title: _____

Date: _____

AGREED AND ACCEPTED:

CONTRACTOR

By: _____

Name: _____

Title: _____

Date: _____