

MOSERS GOVERNANCE POLICY
(Adopted September 14, 1999, with amendments through November 15, 2007)

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MOSERS GOVERNANCE POLICY

(Adopted September 14, 1999, with amendments through November 15, 2007)

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *GLOBAL EXECUTIVE CONSTRAINT*

The Executive Director shall not cause or allow any practice, activity, decision, or organizational circumstance, which is either unlawful under state or federal law, imprudent, or in violation of commonly accepted business and professional ethics.

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(Adopted September 14, 1999, with amendments through November 15, 2007)

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *TREATMENT OF CONSUMERS*

With respect to interactions with consumers, the Executive Director shall not cause or allow conditions, procedures, or decisions, which are unreasonable, cumbersome, undignified, or unnecessarily intrusive.

MOSERS GOVERNANCE POLICY
(Adopted September 14, 1999, with amendments through November 15, 2007)

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *TREATMENT OF STAFF*

With respect to the treatment of staff, the Executive Director may not cause or allow conditions that are unfair, undignified, disorganized, or unclear.

Accordingly, without limitation by enumeration, the Executive Director shall not:

1. Operate without written personnel policies, which clarify personnel rules for staff, provide for effective handling of grievances, and protect against wrongful conditions, such as nepotism and grossly preferential treatment for personal reasons.
2. Discriminate against any staff member for expressing an ethical dissent.
3. Fail to acquaint staff with the Executive Director's interpretation of their protections under this policy.

MOSERS GOVERNANCE POLICY
(Adopted September 14, 1999, with amendments through November 15, 2007)

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *BUDGETING*

Budgeting for any fiscal year or the remaining part of any fiscal year shall not deviate materially from Board's Ends priorities.

Accordingly, without limitation by enumeration, the Executive Director shall not allow budgeting which:

1. Fails to include credible projection of expenses, separation of capital and operational items, and disclosure of planning assumptions.
2. Fails to get approval for staff salary increases and the expansion of staff.
3. Fails to include amounts necessary to fund Board prerogatives during the year set forth in the Cost of Governance policy.
4. Causes the overall budget or an expense category (i.e. the operations or investment budget) to increase from the previous year's budget by more than 10 percent unless the Executive Director receives approval from the Board.
5. Fails to provide any other information pertaining to the budget as requested by the Board.

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(Adopted September 14, 1999, with amendments through November 15, 2007)

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *FINANCIAL CONDITION AND ACTIVITIES*

With respect to the actual, ongoing financial condition and activities, the Executive Director shall not cause or allow the development of fiscal jeopardy or a material deviation of actual expenditures from Board priorities established in Ends policies.

Accordingly, without limitation by enumeration, the Executive Director shall not:

1. Fail to settle payroll and debts in a timely manner.
2. Allow tax payments or other government ordered payments or filings to be overdue or inaccurately filed.
3. Operate without written purchasing procedures that are in accordance with generally accepted practices or make any purchase: (a) wherein normally prudent protection has not been given against conflict of interest, (b) without having obtained comparative prices, or (c) without a stringent method of assuring the balance of long-term quality and cost.
4. Acquire, encumber, or dispose of real property.
5. Fail to aggressively pursue receivables after a reasonable grace period.
6. Fail to abide by the following policy with regard to external service providers:

The Executive Director shall advise all external service providers in writing that the Board of Trustees has taken the position that it is inappropriate and unethical for any outside service provider to make any political contribution with the intent of influencing a purchasing, hiring or firing decision made at MOSERS and shall provide a copy of this policy to all current service providers. The Executive Director shall also notify all external service providers that a violation of this policy may lead to termination of employment or prohibition from hiring. If the Executive Director has reason to believe that this policy may or will be violated by an external service provider, the Executive Director shall require the external service provider (including owners and key employees) to disclose political contributions made to any incumbent or candidate for state office in the last two years and shall provide written notice to the Board in the event the disclosure reveals any such contributions were so made.

MOSERS GOVERNANCE POLICY
(Adopted September 14, 1999, with amendments through November 15, 2007)

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *EMERGENCY EXECUTIVE DIRECTOR SUCCESSION*

I. Executive Director

1. In order to protect the Board from sudden loss of Executive Director services, the Executive Director may have no fewer than two other system executives familiar with Board and Executive Director issues and processes.
2. In the event of a vacancy in the position of the Executive Director, the Board shall employ a search firm to perform a national search for candidates to succeed the Executive Director. The Board shall interview a minimum of three candidates recommended by the search firm as well as any other candidates the Board as a whole agrees to consider. All candidates considered by the Board must meet the qualifications as described in the position description format (PDF) for the position of Executive Director on file with the Human Resources Coordinator at MOSERS.
3. In the event of a vacancy in the position of Executive Director, the Board will select a staff member to serve as the Acting Executive Director responsible for carrying out the Executive Director's duties under the governance policies until such time as the board selects a new Executive Director and that person assumes the position on a full time basis.

MOSERS GOVERNANCE POLICY
(Adopted September 14, 1999, with amendments through November 15, 2007)

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *ASSET PROTECTION*

The Executive Director shall not allow corporate assets to be unprotected, inadequately maintained, or unnecessarily risked.

Accordingly, without limitation by enumeration, the Executive Director may not:

1. Fail to insure against theft and casualty losses appropriately, as determined by a professional risk manager and against liability losses to Board members, staff, and the organization itself in an amount greater than the average for comparable organizations.
2. Subject plant and equipment to improper wear and tear or insufficient maintenance.
3. Unnecessarily expose the organization, its Board, or staff to claims of liability.
4. Receive, process, or disburse funds under controls that are insufficient to meet the Board-appointed Auditor's standards.
5. Endanger the organization's public image or credibility, particularly in ways that would hinder its accomplishment of its mission.

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(Adopted September 14, 1999, with amendments through November 15, 2007)

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *COMPENSATION AND BENEFITS*

With respect to employment, compensation, and benefits to employees, consultants, and contract workers, the Executive Director shall not act imprudently and shall not cause or allow jeopardy to public image. Furthermore, the Executive Director shall not establish current compensation and benefits, which deviate materially from the geographic or professional market for the skills employed.

The Executive Director is authorized to administer a pay plan structure for staff subject to the following limitations:

1. Effective at the beginning of each fiscal year, the Executive Director shall provide a structural adjustment to the base pay of all staff equal to 80% of the increase in the CPI subject to a maximum of 5% of pay. The Executive Director and the Chief Investment Officer shall not be eligible to receive this structural adjustment.
2. The Executive Director shall administer the performance management/ incentive compensation program for Operations staff under the pay proposal approved by the Board at the board meeting held on June 24, 2004 (and any subsequent amendments thereto). An eligible employee may receive 4% of base pay for accomplishment of MOSERS' performance objectives and up to 6% of base pay for accomplishment of individual performance objectives. Compensation paid under this program shall be in the form of a lump sum paid during the last month of the fiscal year. The compensation paid under this program shall not increase the base pay of any eligible employee.
3. The Executive Director shall administer the incentive compensation program for Investment staff under the pay proposal approved by the Board and effective beginning in calendar year 1999 (and any subsequent amendments thereto).

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POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *COMMUNICATION AND SUPPORT TO THE BOARD*

The Executive Director shall not permit the Board to be uninformed or unsupported in its work.

Accordingly, without limitation by enumeration, the Executive Director may not:

1. Neglect to submit monitoring data required by the Board (see policy on Monitoring Executive Director Performance) in a timely, accurate, and understandable fashion, directly addressing provisions of Board policies being monitored.
2. Let the Board be unaware of relevant trends, anticipated adverse media coverage, and material external and internal changes, particularly changes in the assumptions upon which any Board policy has previously been established.
3. Fail to advise the Board if, in the Executive Director's opinion, the Board is not in compliance with its own policies on Governance Process and Board-Executive Director Linkage, particularly in the case of Board behavior, which is detrimental to the work relationship between the Board and the Executive Director.
4. Fail to marshal for the Board as many staff and external points of view, issues, and options as needed for fully informed Board choices.
5. Present information in unnecessarily complex or lengthy form or in a form that fails to differentiate among information of three types: monitoring, decision preparation, and other.
6. Fail to provide a mechanism for official Board, officer, or committee communications.
7. Fail to deal with the Board as a whole except when: (a) fulfilling individual requests for information unrelated to a Board matter, or (b) responding to officers or committees duly charged by the Board. The Executive Director may communicate directly with individual Board members relating to a Board agenda matter so long as he subsequently informs the other board members of the content of the discussion.
8. Fail to report in a timely manner an actual or anticipated noncompliance with any policy of the Board.
9. Fail to report any actual or imminent litigation involving the System.

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POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *INVESTMENT LIMITATIONS*

Pursuant to its authority to delegate functions to employees of the system under section 104.1069, RSMo, the Board hereby delegates to the Executive Director the responsibility to manage the investment program at MOSERS subject to the Investment Policy which consists of the Investment Ends Policy and this Investment Limitations Policy. Regarding limitations on delegated authority, the Executive Director may not:

1. Operate the investment program without an Investment Implementation Policy approved by the Chief Investment Officer (CIO) and the Chief General Asset Consultant (CGAC) that is consistent with these governance policies and outlines the detail of how the overall investment program will be implemented and monitored.
2. Allow the CIO to violate fiduciary requirements, conditions, and limitations described in Chapter 104, RSMo, and sections 105.687 to 105.689, RSMo.
3. Allow the CIO to invest the assets of the system in a manner that is inconsistent with the asset allocation mix and any strategic (within class) allocation of the portfolio as approved by the Board and set forth in the Investment Ends policy.
4. Fail to have the CIO perform an asset allocation/liability study at least every 5 years and to report the results of that study to the Board.
5. Fail to have the CIO evaluate the asset allocation mix and any strategic (with-in class) allocation of the portfolio annually and have the CIO report the results of that evaluation to the Board.
6. Fail to have the CIO provide quarterly investment performance reports to the Board that show performance of the total fund and all underlying asset classes based on the benchmarks set forth in the Investment Ends Policies.
7. Permit the CIO to hire outside service providers (securities lending managers, specialty consultants, the master custodian, and external money managers, including but not limited to external money managers who may be structured as a public or private entity in the form of a partnership, limited liability company, trust, separately managed account, commingled account, or some other form of operational structure in which assets may be held by an external custodian selected and monitored by the external manager) unless the CGAC agrees in writing to the proposed hiring action by the CIO and the Executive Director certifies that the proposed hiring is in compliance with the Board's Investment Policy.

In the event of a hiring, the CIO shall follow a process that is based on a competitive Request for Proposal (RFP) with established selection criteria unless under the circumstances it is not prudent to do so. In the event of a hiring, the CIO shall also: i) document the proposed action by describing the

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decision-making process, expectations, and rationale for the decision, ii) within 14 days after the hiring decision is made, prepare a letter of notification to the Board of Trustees informing them of the action taken, the process, and the rationale for the decision including a justification if the CIO did not follow an RFP process, and iii) enter into a written contract with the new outside service provider on a form that has been reviewed by either the Chief Counsel or MOSERS' outside legal counsel.

8. Permit the CIO to terminate an outside service provider as described in paragraph 7, unless the CGAC agrees in writing to the proposed termination action and the Executive Director certifies that the proposed termination is in compliance with the Board's Investment Policy. In the event of termination, the CGAC and the CIO must agree and the underlying reason for the proposed termination action must be documented and shared with the Board as soon as is practical.
9. Fail to have the CIO monitor the performance of and hold due diligence meetings with all external money managers at least semi-annually (except due diligence meetings for multi-year partnership arrangements that offer less than annual liquidity shall be held at least annually) unless the Executive Director provides prior notice to the Board of the CIO's intention to meet less often, or fail to have the CIO file an annual report to the Board at the November board meeting confirming such meetings have been held or noting any exceptions if such meetings have not been held.
10. The Executive Director shall not permit the CIO to alter the strategic (with-in class) allocation to the portfolio within broad bands approved by the Board unless the CIO receives approval from the CGAC and the Executive Director certifies that the change is in compliance with the Board's policy.
11. Permit the CIO to manage assets internally at MOSERS unless approval from the Board has been received prior to implementing any portfolio within the internal investment program. The following portfolios have been approved as of August 2003: Treasury Inflation Protected Securities (TIPS), Corporate Bonds, Government Bonds, Real Estate Investment Trusts, S&P 500 Index and Short-term Investments.
12. Fail to have the CIO monitor the performance of MOSERS' internal investment program.
13. Fail to have the CGAC perform semi-annual due diligence meetings of the internally managed portfolios and report the results of those meetings to the Board.
14. Fail to notify the Board in writing in the event a member of the internal investment staff has materially underperformed against an applicable investment benchmark or has been terminated as a result of underperformance or potentially unlawful actions.
15. Fail to provide an annual report by an external consultant which evaluates the implementation costs of the investment program.
16. Cause MOSERS to seek lead plaintiff status in litigation arising under federal and state securities laws, unless MOSERS is among the largest shareholders of the defendant issuer and service as lead plaintiff is determined to be in the best interests of the system.

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17. Allow the CIO to make investments that are economically or socially targeted (ETIs or STIs). For purposes of definition, ETIs or STIs are investments that are selected for the economic and social benefits they create in addition to the investment return to the employee benefit plan investor. The following criteria, applicable to any investment, will also be applied to investments that might be classified as ETIs or STIs:
- The fiduciary principles of prudence and exclusive interest of participants will not be abrogated or modified in order to increase the attractiveness of ETIs or STIs.
 - There will be no concession on rate of return. This means there will be no hidden subsidies and that the classic "efficient frontier" test is applicable: a commensurate unit of return will be received for each unit of risk incurred.
 - All participation should be voluntary on the part of the System and should not stem from a legal or policy mandate.
 - Each ETI or STI will be evaluated using an integral, objective process -- that is, each will be meticulously analyzed solely on its own risk/return characteristics. No weight will be given to redeeming social interests.
 - The System will participate only if at least one other comparable investor is participating.
 - When evaluating an investment, appropriate consideration must be given to the role that the investment or investment course of action plays (in terms of diversification, liquidity, risk and return) with respect to the entire Investment Portfolio of the System. Consideration should also be given to alternative investments with similar risks available to the System. The Board believes this set of investment criteria is in full compliance with Section 105.688. RSMo.
18. Fail to have the CIO operate without a rebalancing policy that requires the CIO to examine and comply with the broad asset allocation mix on a monthly basis using the most cost efficient method that is reasonably possible unless under the circumstances it is not possible or prudent to do so in which case the CIO shall provide written notice and explanation to the Board within a reasonable period of time.
19. Allow the CIO to use leverage in the fund except where a specific external service provider has been given written authorization to utilize leverage by the Executive Director, CIO, and the CGAC, subject to written guidelines describing its use within the manager's governing contract. The use of futures to rebalance the fund and the use of futures for the equitization of cash within portfolios is not considered to be leverage.
20. Allow the CIO to use derivative securities and synthetic products including futures, options, swaps, and forward contracts (and/or combinations of these instruments), and pooled, mutual or segregated funds that employ derivative and synthetic products except where a specific external service provider has been given written authorization to use derivative securities and synthetic products by the Executive Director, CIO, and the CGAC, subject to written guidelines describing their use within the manager's governing contract.
21. Allow the CIO to engage in short sales in the fund except where a specific external service provider

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has been given written authorization to engage in short sales by the Executive Director, CIO, and the CGAC, subject to written guidelines describing their use within the manager's governing contract.

22. Fail to comply with a sunshine law information request except to the extent the Executive Director or CIO determines pursuant to a written policy that such request requires the release of information that constitutes a closed record pursuant to section 104.1069, RSMo, or any other provision under state law. The Board recognizes that the Executive Director and the CIO must make decisions with regard to the release of investment records that are timely and consistent so as to not jeopardize the system's ability to implement an investment decision or to achieve an investment objective.
23. Fail to establish policies for securities lending, proxy voting, soft dollar usage, and brokerage commissions that ensure that the interests of the system are adequately protected.
24. Allow MOSERS' employees and the CGAC to:
 - engage in a personal securities transaction based on information about a company that is both material and nonpublic (also known as "insider trading"),
 - engage in a personal securities transaction timed to take advantage of non- public information that would favorably affect that person's personal securities transaction (also known as "front running").

(The CIO shall provide each outside service provider managing assets on behalf of MOSERS with annual notice of the foregoing trading limitations with direction to contact either the Chief Counsel or the Chief Auditor in the event the manager has questions or concerns.)

25. Allow the CIO to make investments that are contrary to this Anti-Terrorism Investment Policy.

For investments held directly by MOSERS' custodian bank which can be altered directly without a manager change, MOSERS will use the Office of the Treasury's Office of Foreign Asset Control (OFAC) list of sanctioned entities to screen for terrorist related investments on a monthly basis. In the event that MOSERS is a direct holder of the securities of an entity on the OFAC sanctioned list, divestment activities will begin immediately.

Investment staff shall inquire at all manager due diligence meetings (I) about the risk that terrorism places on the manager's portfolio, and (II) what efforts the manager is undertaking to screen investments for possible terrorist connections. Information gained in regard to the portfolio risks related to terrorism will be monitored and reported to the Board semiannually.

Annually, at a Board meeting during the first calendar quarter, a report will be given to the Board regarding:

- Any matches of entities on the OFAC sanctioned list that were found and the action taken.
- Any information collected during due diligence meetings regarding portfolio risk

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related to terrorism.

- Any actions including letters and other correspondence with federal officials encouraging proactive federal policy for public pension funds.
- Any changes at the federal level that create additional information that would assist MOSERS in screening for terrorist activity related to investments.

MOSERS will implement an anti-terrorism screening process or service to be provided by either a third party contract or through MOSERS staff for investments held directly by MOSERS custodian bank which can be altered directly without a manager change. This may include the issuance of a Request for Information (RFI), Request for Proposal (RFP) and more informal research. The anti-terrorism screening process must provide, at a minimum: the identification of entities that are reasonably known to be operating directly with the government or a government-controlled agency in sanctioned nations listed by the U.S. government; and the identification of entities engaged in the sponsorship of terrorism. The staff shall present the response to the Board. The Board shall vote on the adoption of an anti-terrorism screen.

Upon implementation of an anti-terrorism screen and thereafter, MOSERS shall not hold any investments that are identified through the approved screening process. Any identified stocks shall be replaced with comparable investments.

This policy is intended to avoid 1) punishing companies whose activities abroad are supported by the US government; 2) punishing companies whose activities abroad do not further terrorism, 3) unnecessarily harming US companies and jobs; and 4) compromising the Board's fiduciary duties to the beneficiaries of the System. Recognizing the dynamic nature of this issue, annually staff will evaluate this policy to determine if changes need to be made to reflect recent developments in this area. In the event that Staff believes changes to this policy are warranted, they will bring the issue to the attention of the Board for consideration.

26. Fail to require the CIO to have individual investment guidelines describing specific investment strategies for all investment managers (internal and external).
27. Administer the College and University defined contribution plan pursuant to Sections 104.1200 to 104.1215, RSMo, (hereafter referred to as "the CURP") and the 457 deferred compensation plan/state match defined contribution plan pursuant to Sections 105.900 to 105.927, RSMo, (hereafter referred to as "the deferred compensation plans") without abiding to the following stipulations:
 - The CIO and CGAC will hire, monitor, and terminate the third-party plan administrators for the CURP and the deferred compensation plans under the same procedures applicable to other service providers under this Investment Limitations policy.
 - The CIO and/or CGAC will monitor the performance of and hold due diligence meetings with all external service providers for the CURP and deferred compensation plans annually and report the results of those meetings to the board. The CIO and CGAC may delegate the due diligence meetings to appropriate MOSERS and CGAC staff.

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- The CIO and CGAC shall have authority to select the investment structure for participants of the CURP and the deferred compensation plans provided the structure selected is designed to allow participants to build a diversified investment portfolio at a competitive price. The executive director must certify that the proposed structure is in compliance with this Investment Limitations policy.
- The investment structure may include the MOSERS total portfolio or subsets of the MOSERS portfolio subject to the following requirements:
 1. The assets and income are held and invested in compliance with Subsection 2 of Section 105.915, RSMo,
 2. The CIO and CGAC agree in writing to the investment options,
 3. The executive director certifies that the proposed investment options are in compliance with this Investment Limitations policy,
 4. The offering will not negatively impact the potential performance of the MOSERS defined benefit plan portfolio, and
 5. Staff obtains board approval of the proposed investment structure prior to implementation.
- The investment structure may include newly created internally managed portfolios designed to track a diversified basket of market indices subject to the following requirements:
 1. The assets and income are held and invested in compliance with Subsection 2 of Section 105.915, RSMo,
 2. The CIO and CGAC agree in writing to the market based internally managed index portfolios,
 3. The executive director certifies that the proposed investment options are in compliance with this Investment Limitations policy,
 4. The market based internally managed index portfolios provide a cost savings to plan participants relative to vendor provided managed index portfolios,
 5. The market based internally managed index portfolio offerings will not negatively impact the potential performance of the MOSERS defined benefit portfolio, and
 6. The CGAC holds annual due diligence meetings of the internally managed offerings that are made available to plan participants and reports the results of those meetings to the board.

28. Permit the CIO to alter the policy benchmarks noted in the Investment Ends Policy without prior approval from the board.

In the event any of the limitations described in this policy are violated, it is the responsibility of the Executive Director and/or the CIO to report the violation or exception to the Board in a timely fashion along with a detailed explanation of the violation and action being proposed or taken to remedy the situation.

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POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: *GLOBAL GOVERNANCE COMMITMENT*

The purpose of the Board, on behalf of the members and beneficiaries, is to see that MOSERS: (1) achieves appropriate results for appropriate persons at an appropriate cost, and (2) avoids unacceptable actions and situations.

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POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: *GOVERNING STYLE*

The Board will govern with an emphasis on: (1) outward vision rather than an internal preoccupation, (2) encouragement of diversity in viewpoints, (3) strategic leadership more than administrative detail, (4) clear distinction of Board and Chief Executive roles, (5) collective rather than individual decisions, (6) the future rather than past or present, and (7) proactively rather than reactivity.

Accordingly:

1. The Board will cultivate a sense of group responsibility. The Board, not the staff, will be responsible for excellence in governing. The Board will be the initiator of policy, not merely a reactor to staff initiatives. The Board may use the expertise of individual members to enhance the ability of the Board as a body, rather than to substitute the individual's judgments for the Board's values.
2. The Board will direct, control, and inspire the organization through the careful establishment of broad written policies reflecting the Board's values and perspectives. The Board's major policy focus will be on the intended long-term impacts outside the organization, not on the administrative or programmatic means of attaining those effects.
3. The Board will enforce upon itself whatever discipline is needed to govern with excellence. Discipline will apply to matters such as attendance, preparation for meetings, policymaking principles, respect of roles, and ensuring the continuance of governance capability.
4. Continual Board development will include orientation of new Board members in the Board's governance process and periodic Board discussion of process improvement.
5. The Board will allow no officer, individual, or committee of the Board to hinder or be an excuse for not fulfilling its commitments.
6. Unless directed otherwise by the Board, the Executive Director, the Chief Counsel, the Board Secretary, and MOSERS' staff/current service providers selected by the Executive Director shall attend executive session during a Board meeting. The Board may also allow members of the public to attend relevant portions of executive session, including a board member's individual staff, if the Board believes the person will aid the Board in its deliberation of a specific issue and will maintain the confidentiality of all such deliberations.

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POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: *BOARD JOB DESCRIPTION*

Specific job outputs of the Board, as an informed agent of the members and beneficiaries, are those that ensure appropriate organizational performance.

Accordingly:

1. The Board will produce the link between the organization, members, and beneficiaries.
2. The Board will produce written governing policies that at the broadest levels address each category of organizational decision.
 - A. Ends: Organizational products, impacts, benefits, outcomes, recipients, and their relative worth (what good for which recipients at what cost).
 - B. Executive Limitations: Constraints on executive authority that establish the prudence and ethics boundaries within which all executive activity and decisions must take place.
 - C. Governance Process: Specification of how the Board conceives, carries out, and monitors its own task.
 - D. Board-Executive Director Linkage: How power is delegated and its proper use monitored; the Executive Director role, authority, and accountability.
3. The Board will produce assurance of Executive Director performance (against policies in 2a and 2b).

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POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: *AGENDA PLANNING*

To accomplish its job products with a governance style consistent with Board policies, the Board will follow an agenda which: (a) completes a re-exploration of Ends policies annually and (b) continually improves Board performance through Board education and enriched input and deliberation.

1. The cycle will conclude each year on the last day of December, so that administrative planning and budgeting can be based on accomplishing a one-year segment of the Board's most recent statement of long-term Ends.
2. The cycle will start with the Board's development of its agenda for the next year.
 - A. Governance education and education related to Ends determination, (e.g. presentations by futurists, demographers, advocacy groups, staff, etc.) will be arranged in the first quarter, to be held during the balance of the year.
3. Executive Director monitoring will be included on the agenda if monitoring reports show policy violations or if policy criteria are to be debated.
4. Executive Director remuneration will be decided after a review of monitoring reports received in the last year during the month of November.
5. Any individual Board member who wants to raise an issue to be placed on the agenda should notify the Chairman of the Board who in turn will make a determination as to whether or not to put the item on the agenda of the next Board meeting.
6. Any individual Board member who wants to propose a change to the system's governance policies shall submit draft text of the proposed change to the Chair and the Executive Director at least two weeks in advance of the board meeting at which the individual Board member wants it to be considered. The Executive Director will immediately distribute the draft to all other board members and establish a deadline for submission of comments, questions, or proposed changes. If alternative language is submitted, staff will prepare additional draft documents, highlighting the changes from the original and indicating who submitted it. Staff will also provide side comments believed to be relevant to the issue. All versions available will be distributed to the board via the board packet at least one week in advance of the board meeting at which the matter is to be considered. This process is intended to provide all Board members with an adequate opportunity to consider proposed changes offered by any Board member prior to a board meeting. The process

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will not preclude the Board from making amendments to any governance policy during a board meeting.

MOSERS GOVERNANCE POLICY
(Adopted September 14, 1999, with amendments through November 15, 2007)

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: *CHAIRPERSON'S ROLE*

The Chairperson assures the integrity of the Board's process and, secondarily, occasionally represents the Board to outside parties.

Accordingly:

1. The job result of the Chairperson is that the Board behaves consistently with its own rules and those legitimately imposed upon it from outside the organization.
 - A. Meeting discussion content will be only those issues, which according to Board policy, clearly belong to the Board to decide, not the Executive Director.
 - B. Deliberation will be fair, open, and thorough, but also timely, orderly, and kept to the point.
2. The authority of the Chairperson consists in making decisions, which fall within topics covered by Board policies on Governance Process and Board-Executive Director Linkage, with the exception of: (a) employment or termination of a Executive Director, and (b) where the Board specifically delegates portions of this authority to others. The Chairperson is authorized to use any reasonable interpretation of the provisions in these policies.
 - A. The Chairperson is empowered to chair Board meetings with all the commonly accepted power of that position (e.g., ruling, recognizing).
 - B. The Chairperson has no authority to make decisions about policies created by the Board within Ends and Executive Limitations policy areas. Therefore, the Chairperson has no authority to supervise or direct the Executive Director.
 - C. The Chairperson may represent the Board to outside parties in announcing Board-stated positions and in stating Chair decisions and interpretations within the area delegated to her or him.
 - D. The Chairperson may delegate this authority but remains accountable for its use.

MOSERS GOVERNANCE POLICY
(Adopted September 14, 1999, with amendments through November 15, 2007)

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: *BOARD MEMBERS' CODE OF CONDUCT*

The Board commits itself and its members to ethical, businesslike, and lawful conduct, including proper use of authority and appropriate decorum when acting as Board members. Accordingly:

1. Members must have loyalty to the ownership, un-conflicted by loyalties to staff, other organizations, and any personal interest as a consumer.
2. “All property, money, funds, investments, and rights which shall belong to, or be available for expenditure or use by, the System shall be dedicated to and held in trust for the members and for the purposes as described in chapters 104, 287, 476, RSMo, and no other.” Section 104.440.1, RSMo.
3. Members must avoid conflict of interest with respect to their fiduciary responsibility.
 - A. There will be no self-dealing or business by a member and the organization. No trustee or employee of the System shall receive any gain, political contribution, or profit from any funds or transaction of the System, except benefits from interest in investments common to all members, if entitled thereto.
 - B. When the Board is to decide upon an issue, about which a member has an unavoidable conflict of interest, that member shall disclose the conflict to the Board and absent herself or himself from not only the vote, but also from the deliberation.
 - C. Board members will not use their Board position to obtain employment in the organization for themselves, family members, or close associates. Except by the unanimous vote of the Board, no person who has served as a Trustee of the Board may become an employee of the System until four years have expired between the date of his or her resignation, termination, or other removal as Trustee and the date of his or her appointment as an employee of the System.
 - D. Any trustee or employee accepting any gratuity, political contribution, or compensation for the purpose of influencing his action with respect to the investment of the funds of the System shall thereby forfeit his office and in addition thereto be subject to the penalties prescribed for bribery.
 - E. If a former Board member or employee of the system is employed by a current system service provider, it shall not impact the Board’s business relationship with that firm provided no conflict of interest exists and no violation of law occurs as a result of such employment.

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4. Board members may not attempt to exercise individual authority over the organization except as explicitly set forth in Board policies.
 - A. Members interaction with the Executive Director or staff must recognize the lack of authority vested in individuals, except when explicitly Board authorized.
 - B. Members interaction with public, press, or other entities must recognize the same limitation and the inability of any Board member to speak for the Board, except to repeat explicitly stated Board decisions.
 - C. Members will not make individual judgments of Executive Director or staff performance.
 - D. Board members will not advise System members or beneficiaries regarding individual benefit amounts.
5. Members will respect the confidentiality appropriate to issues of a sensitive nature.
6. Members will be properly prepared for Board deliberation.

MOSERS GOVERNANCE POLICY
(Adopted September 14, 1999, with amendments through November 15, 2007)

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: *BOARD COMMITTEE PRINCIPLES*

Board committees, when used, will be assigned so as to reinforce the wholeness of the Board's job and so as never to interfere with delegation from Board to Executive Director.

Accordingly:

1. Board committees are to help the Board do its job, not to help or advise the staff. Committees ordinarily will assist the Board by preparing policy alternatives and implications for Board deliberation. In keeping with the Board's broader focus, Board committees will normally not have direct dealings with current staff operations.
2. Board committees may not speak or act for the Board, except when formally given such authority for specific and time-limited purposes. Expectations and authority will be carefully stated in order not to conflict with authority delegated to the Executive Director.
3. Board committees cannot exercise authority over staff. Because the Executive Director works for the full Board, he or she will not be required to obtain approval of a Board committee before an executive action.
4. Board committees are to avoid over-identification with organizational parts rather than the whole. Therefore, a Board committee which has helped the Board create policy on some topic will not be used to monitor organizational performance on that same subject.
5. This policy applies to any group, which is formed by Board action, whether or not it is called a committee and regardless whether the group includes Board members. It does not apply to committees formed under the authority of the Executive Director.

MOSERS GOVERNANCE POLICY

(Adopted September 14, 1999, with amendments through November 15, 2007)

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: *BOARD COMMITTEE STRUCTURE*

A committee is a Board committee only if its existence and charge come from the Board, regardless of whether Board members sit on the committee. The only Board committees are those which are set forth in this policy. Unless otherwise stated, a committee ceases to exist as soon as its task is complete.

MOSERS GOVERNANCE POLICY

(Adopted September 14, 1999, with amendments through November 15, 2007)

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: *COST OF GOVERNANCE*

Because poor governance costs more than learning to govern well, the Board will invest in its governance capacity.

Accordingly:

1. Board skills, methods, and supports will be sufficient to assure governing with excellence.
 - A. Retirement boards have a clear and ongoing need for information on how best to manage their operations, exercise their investment functions, and generally carry out their fiduciary responsibilities. Adoption of best practices is an effective way to assure that the board is operating in accordance to fiduciary duty. In light of the constantly changing nature of pensions, ongoing education is necessary to maintain up-to-date knowledge of investment strategies and governance practices, and education is the most effective way to achieve change. In connection with Section 105.666, RSMo, the board has established the following as its board member education program in effect beginning on and after January 1, 2008:
 - i. Within ninety days of assuming the position of MOSERS trustee, new board members will meet with the executive director, the deputy executive director of investments, and the deputy executive director of operations. In addition, new board members will also meet with the chief legal counsel and the chief auditor. During those meetings, new board members will be oriented on all of the items described in the curriculum required under Section 105.666, RSMo. Board members will also receive trustee orientation material and website information that describe, in detail, all aspects of the administration of MOSERS.
 - ii. A board member who has served one or more years, shall be in compliance with the annual requirement under Section 105.666, RSMo, (which is to attend two continuing education programs beginning in 2008) if the board member attends at least two of the following each calendar year:
 - MOSERS annual board retreat
 - The Missouri Association of Public Employees' Retirement System (MAPERS) annual education conference - usually held in July
 - The National Association of State Retirement Administrators (NASRA) annual conference - usually held in August
 - A MOSERS due diligence visit with a money manager, consultant, or other service provider (a schedule of due diligence meetings is available on the board's website)

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- Any other conference designed to educate public pension administrators and trustees
- iii. Any board member who anticipates not being in compliance with paragraph 2 of this policy shall notify the board chairperson. The chairperson in turn, in consultation with the executive director, will assist the board member in arranging for the activity required to achieve compliance. If the chairperson anticipates not being in compliance with paragraph 2 of this policy, the chairperson shall consult with the executive director who will assist the chairperson in arranging for the activity required to achieve compliance.
- B. Outside monitoring assistance will be arranged so the Board can exercise confident control over organizational performance. This includes, but is not limited to, financial audits.
- C. Outreach mechanisms will be used, as needed, to ensure the Board's ability to listen to member viewpoints and values.
2. Costs will be prudently incurred, though not at the expense of endangering the development and maintenance of superior capability. The budget shall annually include adequate amounts for (a) Board training, including attendance at conferences and workshops, (b) audit and other third-party monitoring of organizational performance, and (c) surveys, focus groups, opinion analyses, and meeting costs. With regard to costs associated with Board education, the Board places great value on each Board member obtaining education on all aspects of system administration. The Board also considers participation by Board members in regularly scheduled site visits of investment managers to be a form of education. The Board recognizes that members will be required to travel to meet the Board's expectation in this regard. Therefore, Board members are encouraged and authorized to travel for this and other educational purposes. The Executive Director shall continue to provide information to all members with regard to educational opportunities. The Board secretary shall maintain a log of all trips taken by Board members based on the travel arrangements made by staff. The log shall be made available to any Board member upon request.

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(Adopted September 14, 1999, with amendments through November 15, 2007)

POLICY TYPE: BOARD-EXECUTIVE DIRECTOR LINKAGE

POLICY TITLE: *GLOBAL GOVERNANCE-MANAGEMENT CONNECTION*

The Board's official connection to the operational organization, its achievements, and conduct will be through a Chief Executive Officer, titled Executive Director. The only exceptions will relate to the Chief Auditor, Chief Counsel, Chief Investment Officer, and Chief General Asset Consultant whose connections to the Board will be described respectively in the policy titles: "Chief Auditor Connection," "Chief Counsel Connection," "Chief Investment Officer Connection," and "Chief General Asset Consultant Connection."

MOSERS GOVERNANCE POLICY

(Adopted September 14, 1999, with amendments through November 15, 2007)

POLICY TYPE: BOARD-EXECUTIVE DIRECTOR LINKAGE

POLICY TITLE: *UNITY OF CONTROL*

Only officially passed motions of the Board are binding on the Executive Director.

Accordingly:

1. Decisions or instructions of individual Board members, officers, or committees are not binding on the Executive Director, except in instances when the Board has specifically authorized such exercise of authority.
2. In the case of Board members or committees requesting information or assistance without Board authorization, the Executive Director can refuse such requests that require, in the Executive Director's opinion, a material amount of staff time, funds, or is disruptive. (The exception would be when such request is in connection with the Board member's capacity as a member of the System and such request would be responded to for any member of the System.)

MOSERS GOVERNANCE POLICY

(Adopted September 14, 1999, with amendments through November 15, 2007)

POLICY TYPE: BOARD-EXECUTIVE DIRECTOR LINKAGE

POLICY TITLE: *ACCOUNTABILITY OF THE EXECUTIVE DIRECTOR*

The Executive Director is the Board's only link to operational achievement and conduct, so that all authority and accountability of staff, as far as the Board is concerned, is considered the authority and accountability of the Executive Director.

Accordingly:

1. The Board will never give instructions to persons who report directly or indirectly to the Executive Director, except as provided under these policies.
2. The Board will refrain from evaluating, either formally or informally, any staff other than the Executive Director.
3. The Board will view Executive Director performance as identical to organizational performance, so that organizational accomplishment of Board stated Ends and avoidance of Board proscribed means will be viewed as successful Executive Director performance.

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(Adopted September 14, 1999, with amendments through November 15, 2007)

POLICY TYPE: BOARD-EXECUTIVE DIRECTOR LINKAGE

POLICY TITLE: *DELEGATION TO THE EXECUTIVE DIRECTOR*

The Board will instruct the Executive Director through written policies, which prescribe the organizational Ends to be achieved, and describe organizational situations and actions to be avoided, allowing the Executive Director to use any reasonable interpretation of these policies.

Accordingly:

1. The Board will develop policies instructing the Executive Director to achieve certain results at a specified cost. These policies will be developed systematically from the broadest, most general level to more defined levels, and will be called Ends policies.
2. The Board will develop policies, which limit the latitude the Executive Director may exercise in choosing the organizational means. These policies will be developed systematically from the broadest, most general level to more defined levels, and they will be called Executive Limitations policies.
3. As long as the Executive Director uses *any reasonable interpretation* of the Board's Ends and Executive Limitations policies, the Executive Director is authorized to establish all further policies, make all decisions, take all actions, establish all practices, and develop all activities.
4. The Board may change its Ends and Executive Limitations policies, thereby shifting the boundary between Board and Executive Director domains. By doing so, the Board changes the latitude of choice given to the Executive Director. But as long as any particular delegation is in place, the Board will respect and support the Executive Director's choices.

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(Adopted September 14, 1999, with amendments through November 15, 2007)

POLICY TYPE: BOARD-EXECUTIVE DIRECTOR LINKAGE

POLICY TITLE: *MONITORING EXECUTIVE DIRECTOR PERFORMANCE*

Systematic and rigorous monitoring of Executive Director job performance will be solely against the expected Executive Director job outputs: organizational accomplishment of Board policies on Ends, and organizational operation within the boundaries established in Board policies on Executive Limitations.

Accordingly:

I. General Procedures

1. Monitoring is simply to determine the degree to which Board policies are being met. Data that does not do this will not be considered monitoring data.
2. The Board will acquire monitoring data by one or more of four methods: (a) by Internal report, in which the Executive Director discloses compliance information to the Board, (b) by External report, in which an external, disinterested third party selected by the Board assesses compliance with Board policies, (c) by report from the Chief Auditor.
3. In every case, the standard for compliance shall be *any reasonable Executive Director interpretation* of the Board policy being monitored.
4. All policies that instruct the Executive Director will be monitored at a frequency and by a method chosen by the Board. The Board can monitor any policy at any time by any method, but will ordinarily depend on a routine schedule.

<u>Policy</u>	<u>Method</u>	<u>Frequency</u>
<i>Treatment of Consumers</i>	<i>Internal</i>	<i>Annually</i>
<i>Treatment of Staff</i>	<i>Internal</i>	<i>Annually</i>
<i>Financial Planning/Budgeting</i>	<i>Internal</i>	<i>Quarterly</i>
<i>Financial Condition & Activities</i>	<i>Internal</i>	<i>Quarterly</i>
<i>Emergency Exec. Dir. Succession</i>	<i>Internal</i>	<i>Annually</i>
<i>Compensation & Benefits</i>	<i>Internal</i>	<i>Annually</i>
<i>Communication & Support</i>	<i>Internal</i>	<i>Annually</i>

MOSERS GOVERNANCE POLICY
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II. Specific Procedures for Reviewing Executive Limitations

1. Global Executive Constraint

- Exception Report by Chief Auditor and Chief Counsel made to the Board immediately following the discovery of potential violation of the policy.

2. Treatment of Consumers

- Annual Report made by the Executive Director, which outlines efforts to satisfy the policy requirement. The report should also cover the following areas: communications, satisfaction surveys, consumer complaints, evaluation of effectiveness of the phone system (include telephone statistics), and any other pertinent information.

3. Treatment of Staff

- Annual Report made by the Executive Director that outlines efforts to satisfy policy requirement. The report should also cover the following areas: maintenance of written personnel policy, staff grievances, turnover rate, exit surveys, and any other pertinent information.

4. Budgeting

- Exception Report by Executive Director at the next Board meeting if Executive Director anticipates additional expenses in excess of 10 percent of the overall budget or an expense category (i.e. the operations or investment budget), any unscheduled salary increases, or the unscheduled expansion of staff. (Unscheduled includes any salary increases or staff expansion not included in the Board approved budget.)

5. Financial Condition and Activities

- Exception Report by the Chief Auditor following the discovery of potential violation of the policy.
- Annual Report by the Executive Director, which outlines efforts to satisfy policy requirements.

6. Emergency Executive Director Succession

- Exception Report by Executive Director at the next Board meeting if Executive Director anticipates changing the organizational structure in a manner that eliminates the position of the Deputy Executive Director/Chief Operations Officer and/or the Deputy Executive Director/Chief Investment Officer.

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7. Asset Protection

- Annual Report by the Insurance/ Risk Manager Consultant that outlines efforts to satisfy policy requirement.
- Exception Report by Chief Auditor if Executive Director allows improper wear and tear or insufficient maintenance of plant and equipment or permits improper controls of funds under the policy. The report shall be made at the next Board meeting following discovery of the condition.
- Exception Report by Chief Counsel if Executive Director unnecessarily exposes the System to claims of liability. The report shall be made at the next Board meeting following the discovery of condition.

8. Compensation and Benefits

- Annual Report by the Executive Director outlining the results of a salary survey. Salary surveys should be performed at least every other year.

9. Communication and Support to the Board

- Exception Report by Executive Director at the next Board meeting if Executive Director anticipates any problem satisfying the policy requirements.

10. Investment Limitations

- Exception Report by the Executive Director and/or Chief Investment Officer if policy violated along with a detailed explanation of the violation and action being proposed or taken to remedy the situation.

*Unless otherwise stipulated by the Board, annual reports by the Executive Director will be mailed to each Board member by no later than September 1 of each year. The Board will consider the report as part of its evaluation of the Executive Director's performance at the November Board meeting.

*In addition to the Exception report requirements outlined above, the Chief Counsel and the Chief Auditor will issue an annual Exception report, which will be mailed to each Board member by no later than September 1 of each year. The Board will consider those reports as part of its evaluation of the Executive Director's performance at the November Board meeting.

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III. Specific Procedures for reviewing Executive Director Performance with regard to the Achievement of Ends Policies

1. Investments

- Quarterly, the CIO will submit a report to the Board addressing the System's success or lack thereof in accomplishing the investment "ends" based on the benchmarks described within this policy at the total fund level and asset class levels. This report will also include a summary of due diligence meetings held throughout the quarter, and will also provide the Board with a brief commentary by the CIO and/or CGAC which summarizes their thoughts on the market and key strategic decisions made in the quarter along with justification for those decisions

- Annual Report during the third quarter by outside consultant evaluating implementation costs of Investment program.

2. Benefits

- Annual Report at the September Board meeting by the Executive Director, which outlines efforts to satisfy specific policy requirements.

3. Legislation

- Report by the Executive Director at the next Board meeting summarizing staff response (technical and fiscal information) to proposed legislation.

4. Sound Actuarial Condition

- Annual Report at the September Board meeting by the Actuary (reference: Board rules 2-17 and 3-15 contain procedures for selection of actuary: Beginning 2003, the Executive Director shall retain an independent actuarial firm to perform an actuarial audit at least every 5 years in order to evaluate the actuarial firm that is currently providing actuarial services to the Board and report the results of that audit to the Board at a Board meeting held during the first quarter of that year. The Executive Director may recommend changes to the contract with the actuarial firm that is currently providing actuarial services to the Board or the issuance of a request for proposal from additional actuarial firms based on the information provided in the actuarial audit report, or whenever the Executive Director determines it is appropriate to do so.)

IV. Tentative Schedule for Review Required by the Governance Policies

(See Appendix A)

MOSERS GOVERNANCE POLICY
(Adopted September 14, 1999, with amendments through November 15, 2007)

POLICY TYPE: BOARD-EXECUTIVE DIRECTOR LINKAGE

POLICY TITLE: *CHIEF AUDITOR CONNECTION*

A direct, but limited, access to the Board by a Chief Auditor is an exception to the exclusive role of the CEO in connecting governance and management.

Connection:

1. The Chief Auditor's sole access to the Board is for submission of reports specifically requested by the Board or for submission of audit reports that the Chief Auditor believes should be reviewed by the Board.
 - A. On a routine basis, the Chief Auditor is to submit monitoring data on Board policies at a frequency established in the Board policy "Monitoring Executive Director Performance."
 - B. The Chief Auditor is to offer his or her opinion to the Board if, in the view of the Chief Auditor, any action of the Executive Director or other staff is either illegal or in violation of any policy.
2. The Chief Auditor in all other ways, except as noted in Section 3 below, is subject to the Executive Director's management authority over all staff and has no direct access to the Board, except to report that in his or her judgment, the Executive Director is impeding the exercise of the Chief Auditor's official access as described in Section 1 of this policy or seeking to inappropriately influence the content of the Chief Auditor's reporting or impairing the independence of the Chief Auditor.
3. In the event the Executive Director intends to terminate or suspend the employment of the Chief Auditor, the Executive Director shall provide the Board with two weeks advance notice prior to the effective date of the termination or suspension. (With appropriate notice to the Board, the Executive Director may suspend the employment of the Chief Auditor with pay prior to the effective date of termination.) The Executive Director will communicate the reason for such termination or suspension in a memorandum distributed to each Board member that explains the rationale for such action. The Board may elect to investigate the basis for the termination or suspension as it deems appropriate under the circumstances including, but not limited to, interviewing the Executive Director, the Chief Auditor, or any other employee or person. The Board may also establish any timeframe for the investigation deemed appropriate under the circumstances and direct the Executive Director to refrain from implementing such termination or suspension pending the completion of such investigation.

MOSERS GOVERNANCE POLICY
(Adopted September 14, 1999, with amendments through November 15, 2007)

POLICY TYPE: BOARD-EXECUTIVE DIRECTOR LINKAGE

POLICY TITLE: *CHIEF AUDITOR CONNECTION*

The Chief Auditor has specific responsibilities relating to the governance process. Those responsibilities include, but are not limited to, the following:

Responsibilities:

1. The chief auditor, or an external consultant selected by the chief auditor, shall issue an evaluation to the Board at least once every five years or when the policy benchmarks are changed, reporting on the accuracy and appropriateness of the investment policy benchmarks being utilized to gauge the performance of the investment program. In addition, the chief auditor shall annually perform a review of the accuracy of the policy and strategy benchmark calculations.
2. The chief auditor, or an external consultant selected by the chief auditor or the executive director, shall issue an annual report regarding the independence, viability, and performance of the chief general asset consultant (CGAC).
3. The chief auditor shall conduct audits of all internally managed portfolios and file audit reports with the board. The timing and scope of such audits shall be determined by the chief auditor based upon a properly completed risk assessment. The format of any such audit reports shall be determined by the chief auditor after consulting with the executive director and CIO.
4. The chief auditor shall prepare an annual internal audit plan that describes the audits and reviews planned for the upcoming fiscal year. The annual internal audit plan shall be based on a properly completed risk assessment. A brief listing of planned audits and reviews shall be presented to the board during the March board meeting in executive session, in order to solicit audit concerns expressed by the board members. The annual audit plan shall be prepared by the chief auditor and presented to the board and the executive director during the executive session of the June board meeting for consideration and approval. The executive director shall receive a copy of the audit plan one month in advance of the June board meeting. Any material changes to the current audit plan shall be approved in the same manner.
5. The chief auditor shall communicate with the external auditors after each annual financial statement audit to determine if the external auditors wish to discuss any issues with the board during the executive session of the November board meeting. Such meeting with the external auditors, if requested by either the Board or the external auditors, will include only the board members, board secretary, and the external auditors. The board shall also receive a copy of any management letters (which generally describe auditor recommendations to improve the internal control structure) prepared by the external auditors and any applicable memos from staff that

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provide responses to the auditor's concerns and recommendations.

6. All other duties and responsibilities shall be described in the Internal Audit Charter. The Internal Audit Charter shall be prepared by the chief auditor after consultation with the Executive Director and shall be approved by the executive director, board chair, chief auditor, and internal auditor.

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(Adopted September 14, 1999, with amendments through November 15, 2007)

POLICY TYPE: BOARD-EXECUTIVE DIRECTOR LINKAGE

POLICY TITLE: *CHIEF COUNSEL CONNECTION*

A direct, but limited, access to the Board by Chief Counsel is an exception to the exclusive role of the CEO in connecting governance and management.

1. The Chief Counsel's sole access to the Board is for submission of opinions specifically requested by the Board. The Chief Counsel is also authorized, after consultation with the Executive Director, to bring legal issues to the attention of the Board.
2. If the Chief Counsel has reason to believe that any action or proposed action of the Board, a Board member, the Executive Director, or other staff is either illegal or in violation of a MOSERS Governance Policy, the Chief Counsel shall provide the Board with an opinion with regard to the specific matter.
3. The Chief Counsel in all other ways is subject to the Executive Director's managerial authority over all staff and has no direct access to the Board, except as provided in this policy.
4. In the event the Executive Director intends to terminate or suspend the employment of the Chief Counsel, the Executive Director shall provide the Board with two weeks advance notice prior to the effective date of the termination or suspension. (With appropriate notice to the Board, the Executive Director may suspend the employment of the Chief Counsel with pay prior to the effective date of termination.) The Executive Director will communicate the reason for such termination or suspension in a memorandum distributed to each Board member that explains the rationale for such action. The Board may elect to investigate the basis for the termination or suspension as it deems appropriate under the circumstances including, but not limited to, interviewing the Executive Director, the Chief Counsel, or any other employee or person. The Board may also establish any timeframe for the investigation deemed appropriate under the circumstances and direct the Executive Director to refrain from implementing such termination or suspension pending the completion of such investigation.
5. Chief Counsel shall direct all legal matters pertaining to potential or actual litigation to Outside Legal Counsel retained by the Board and develop strategies in conjunction with the Outside Legal Counsel to resolve all such matters. The Chief Counsel, Outside Legal Counsel, and Special Outside Legal Counsel shall keep the Board apprised of all potential and actual litigation.
6. The Executive Director is authorized to retain Special Outside Legal Counsel to assist in legal issues pertaining to specialty areas such as tax and investment matters if the Executive Director determines that those legal services could be provided more efficiently by such counsel. In that event, the Chief Counsel shall direct related legal matters to the Special Outside Legal Counsel. The Executive Director shall notify the Board within 14 days after hiring or terminating Special Outside Legal Counsel and inform the Board of the rationale for the action taken.

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(Adopted September 14, 1999, with amendments through November 15, 2007)

7. Chief Counsel shall monitor the performance of and review all billing statements from the Outside Legal Counsel and Special Outside Legal Counsel.

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(Adopted September 14, 1999, with amendments through November 15, 2007)

POLICY TYPE: BOARD-EXECUTIVE DIRECTOR LINKAGE

POLICY TITLE: *CHIEF INVESTMENT OFFICER CONNECTION*

A direct, but limited, link to the Board by the Chief Investment Office (CIO) is an exception to the exclusive role of the Executive Director in connecting governance and management.

1. The CIO's sole access to the Board is for submission of investment reports, information or communications required by these policies, and any other information or opinions specifically requested by the Board with regard to the investment program.
2. The CIO in all other ways is subject to the Executive Director's decisions made in accordance with the Executive Director's responsibilities under these governance policies.
3. The CIO may be employed through a written contract between the Executive Director, the Board, and the CIO.
4. The CIO shall monitor the performance of and review all billing statements from the CGAC and all other outside service providers (external money managers, securities lending managers, specialty consultants, and the master custodian) to ensure accuracy.

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(Adopted September 14, 1999, with amendments through November 15, 2007)

POLICY TYPE: BOARD-EXECUTIVE DIRECTOR LINKAGE

POLICY TITLE: *CHIEF GENERAL ASSET CONSULTANT CONNECTION*

The Chief General Asset Consultant (CGAC) serves under contract at the pleasure of the Board. The contract shall outline certain reporting requirements applicable to the CGAC related to the oversight of the investment program. The Executive Director shall ensure that the contract between the Board and the CGAC includes in addition to other mutually agreed to contractual requirements, at least the following:

- ◆ Upon learning of an issue that the CGAC believes is material regarding deviation from prudence, objectivity, guideline adherence or any other matter of concern involving Staff, the CGAC is to express that concern in writing to the Executive Director and provide the Chair of the Board with a copy. The Executive Director will have three business days to respond to the issues identified by the CGAC. Copies of his or her response will be sent to the CGAC and the Chair.
- ◆ If the CGAC believes the issue warrants immediate action, he or she must make this clear in the original correspondence and, in addition, recommend action to be taken. In this instance, a concerted effort must be made by the CGAC to contact the Board Chair, by phone, at the time the original correspondence is sent, in order to provide a verbal description of the issue, the proposed action, and the justification for both.
- ◆ Upon receipt of the Executive Director's response, the Chair and the CGAC will review the response at the earliest practical time and determine the proper course of action. As determined by the Chair and the CGAC, Board members will be contacted if it is concluded that further immediate action is required.

MOSERS GOVERNANCE POLICY
(Adopted September 14, 1999, with amendments through November 15, 2007)

POLICY TITLE: *PURPOSE*

The purpose of MOSERS is to provide retirement, survivor, disability, and life insurance benefits to its members.

THE MISSION OF MOSERS IS: TO EXCEED CUSTOMER EXPECTATIONS BY PROVIDING OUTSTANDING BENEFIT SERVICES THROUGH PROFESSIONAL PLAN ADMINISTRATION AND SOUND INVESTMENT PRACTICES.

Achievement of this mission will result in MOSERS being a premier retirement system as evidenced by:

MEMBER BENEFITS: Providing retirement benefits and planning services to enhance the quality of life for members, and

QUALITY SERVICE: Striving to exceed the service expectations of members, employers, and associates

Through

FIDUCIARY RESPONSIBILITY: Safeguarding members' financial retirement security using ethical and professional business practices, and

FINANCIAL PERFORMANCE: Improving funding through prudent investments and resource management,

By

EMPOWERMENT OF ASSOCIATES: Enabling associates to act through the delegation of authority and the acceptance of accountability, and

ORGANIZATION RENEWAL: Enhancing MOSERS' future by continually acquiring, sharing, and implementing new knowledge.

MOSERS GOVERNANCE POLICY
(Adopted September 14, 1999, with amendments through November 15, 2007)

POLICY TYPE: ENDS

POLICY TITLE: *INVESTMENTS*

THE INVESTMENT “ENDS”:

This policy defines the desired outcome of the investment program. It will be the board’s responsibility to carry out the following duties with the assistance of staff:

1. Develop a Real Return¹ Objectives (RRO) that will:
 - i. Keep contribution rates reasonably level over long periods of time absent changes in actuarial assumptions.
 - ii. Maintain contribution rates consistent with historical levels ranging from 8% to 12% of covered payroll subject to and recognizing that changes made in the law or actuarial assumptions will affect contribution rates.
2. Establish an asset allocation policy that is expected to meet the RRO while minimizing the impact of the fund’s volatility on the contribution rate. Secondary considerations include, but are not limited to, the expected rate of return for each asset class, the expected risk of each asset class, the correlation between rates of return among the asset classes, and the investment objectives and risk constraints of the fund.
3. Monitor costs associated with the efficient implementation of the asset allocation through the use of internal and external resources.

REAL RETURN OBJECTIVE:

Based on actuarial assumptions adopted by the board on September 20, 2001, it is estimated that the portfolio must generate a compound annual real return on invested assets of 5% per annum² in order for the System to accumulate the assets needed to meet benefit obligations while at the same time maintaining a level percent of payroll contribution rate objective of 8% to 12% based on the analysis of current assets and liabilities as of that date.

¹ The real return objective is the rate by which the total return exceeds the inflation rate as measured by the Consumer Price Index, U.S. City Average for All Urban Consumers (CPI-U).

² The board recognizes that the estimated required real rate of return will likely need to exceed the 5% actuarial required rate of return. The additional return is necessary to cover operating and rebalancing expenses. For further details on these assumptions, please consult the February 2002 Value Added.

MOSERS GOVERNANCE POLICY

(Adopted September 14, 1999, with amendments through November 15, 2007)

POLICY AND STRATEGY ASSET ALLOCATION MIX:

Based on the board's determination of the appropriate risk tolerance for the System, and its long-term return expectations, it has chosen the following broad Asset Allocation Policy Mix: (this mix was adopted at the July 20, 2007, board meeting)

<i>POLICY MIX</i>	<i>PERCENT OF TOTAL FUND</i>
<i>Public Equity Investments</i>	45%
<i>Public Debt Investments</i>	30%
<i>Alternative Investments</i>	25%

The board has granted the chief investment officer (CIO) the responsibility for establishing the strategic (sub-asset class) allocation of the portfolio within broad ranges approved by the board. The CIO will make strategic allocation decisions away from the policy benchmark weight subject to approval from the chief general asset consultant (CGAC) with certification from the executive director (ED) that the change is in compliance with the board's policy. Based on a variety of considerations, the board has selected the strategic (sub-asset class) allocation ranges that are allowable. These ranges are outlined in the table shown below. In addition, this table outlines the policy benchmarks and the policy benchmark weights which will be used to measure performance.

Asset Class	Policy Benchmark Weight	Allocation Range	Policy Benchmark
PUBLIC EQUITY	45.0%		MSCI ACWI
Domestic Equity	Benchmark weight ¹	+/-10%	
International Developed Equity	Benchmark weight ¹	+/- 10%	
Emerging Markets Equity	Benchmark weight ¹	+/- 5%	
PUBLIC DEBT	30.0%		Blended Return
Core Fixed Income	10.0%	5.0% - 15.0%	Lehman Aggregate
TIPS	10.0%	5.0% - 15.0%	Lehman TIPS
High Yield	5.0%	0.0% - 10.0%	Lehman High Yield
Market Neutral	5.0%	0.0% - 10.0%	T-Bills + 4%
ALTERNATIVES	25%		Blended Return
Real Assets	15.0%	10.0% - 20.0%	Blended Return ²
<i>Commodities</i>	3.0%		<i>GSCI</i>
<i>Timber</i>	6.0%		<i>NCREIF Timber</i>
<i>REITS/Private RE</i>	6.0%		<i>Wilshire REITs</i>
Private Investments	10.0%	5.0% - 15.0%	S&P 500 + 3%
<i>Private Equity</i>	7.5%		
<i>Private Debt</i>	2.5%		

¹ The public equity sub-asset class target allocations are not static weights. The weights float based upon capitalization of the MSCI ACWI benchmark.

² The policy benchmark is based upon the blending of GSCI, NCREIF Timber, and Wilshire REITs at their policy benchmark weights.

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COMPONENTS OF INVESTMENT RETURN:

Investment return is comprised of two components known as “beta” and “alpha.” Beta return is the return generated from exposure to the policy sub-classes that we have identified in the above table. Beta return is thought of as the market return for the sub-class in question and is identified by the policy benchmark. Alpha return is generated as a result of manager skill or investment decisions made that add or detract value relative to the policy benchmark. The following paragraphs define each component’s respective role within the portfolio.

Beta Exposures:

The policy weights outlined in the above table represent policy exposures to various markets we have defined as sub-asset classes. It is also appropriate to think of these sub-asset classes as exposure to the beta component of the return equation. (As currently approved, there are two sub-asset classes, specifically the market neutral and private debt sub-asset classes, that have attached to them an absolute return component (for example, the 4% component of T-Bills + 4% benchmark for market neutral) which is more appropriately defined as alpha; however, for purposes of our policy, these absolute percentages will be viewed as beta.) What follows are descriptions of each sub-asset class, their purpose in the overall portfolio, and more specifically, the types of investments that would be expected to be made within the sub-asset class according to a mutual understanding between the investment management group (staff) and the board.

Public Equity

Domestic Equity: This sub-asset class seeks to provide a combination of long-term capital appreciation and dividend income that is expected to exceed the rate of inflation. It is expected that investments in this class will perform well during periods of rising economic growth and/or falling inflation. Investments in this sub-asset class may include a variety of U.S. stock investments with varying characteristics related to market capitalization and investment style including long/short hedged equity

International Developed Equity: This sub-asset class seeks to provide long-term capital appreciation and dividend income that in aggregate are expected to exceed the rate of inflation. It is expected that investments in this sub-asset class will perform well during periods of rising economic growth and/or falling inflation. Investments in this category will be made through a diverse group of strategies varying in size, investment style, and exposure to opportunities in a large group of developed countries including long/short hedged equity.

Emerging Markets Equity: This sub-asset class seeks to provide long-term capital appreciation in excess of inflation primarily through non-U.S. equity investments in countries outside of those included in the MSCI EAFE Index. Because of the higher growth rates in these countries, higher returns are expected. Investments may range in size (large-, mid-, small-, and micro-cap stocks) and style (growth and value) and be both long and short.

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Public Debt

Core Fixed Income: This sub-asset class is designed to provide a source of current income and to reduce overall fund volatility. In addition, it is expected that investments in this category would perform well in periods of falling inflation. Investments within this category may include U.S. Treasuries, agencies, mortgage-backed securities, asset-backed securities, and investment grade corporate securities (i.e. bonds with a credit quality rating no less than BBB) and international investment grade securities. Shorting is expected in this portfolio from time to time as necessary to rebalance the overall fund

Treasury Inflation Protected Securities (TIPS): This sub-asset class is designed to provide a source of current income to the portfolio, while providing a hedge for the inflation sensitivity of the system's liabilities. TIPS are fully guaranteed by the full faith and credit of the U.S. government and are highly liquid. Additionally, the specific guidelines for the TIPS portfolio allows for the inclusion of a small portion (a maximum of 10%) of non-guaranteed securities that must also be structured to provide inflation protection but may be of agency quality or corporates of AAA or AA credit quality. Other instruments which are allowable holdings may include international inflation protected securities, nominal treasuries, swaps, forward contracts, and inflation futures; however, it is expected that these types of securities will never make up a majority of this category.

High Yield Bonds: This sub-asset class seeks to provide capital appreciation within the portfolio through investment in below investment grade debt instruments and debt considered to be "opportunistic" in nature. Generally, it is expected that securities in this bucket will be in "current pay" status with superior coupon cash flow because of the lower credit quality bias. Investments in this portfolio may include non-investment grade debt of both U.S. and non-U.S. issuers.

Market Neutral: This sub-asset class provides diversification to the total portfolio and strives to reduce total fund volatility. The reasoning behind this sub-asset class being positioned within public debt is not that all of its exposure will be to debt instruments, but, more importantly that it will be expected to have lower volatility (standard deviation) and similar returns over long periods of time to other public debt investments. This area will include investments in a group of skill-based managers using a variety of strategies to produce absolute returns of 4% in excess of the return on 90-day Treasury Bills. At any given point in time, the number of managers and types of investments and strategies being utilized may include the entire universe of available investment options. In addition, a variety of marketable alternative strategies may be utilized within this sub-asset class including, but not limited to hedged equity, convertible arbitrage, event driven, relative value, global fixed income/currencies, managed futures, and commodities.

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Alternative Investments

Real Assets: This sub-asset class is expected to perform well in periods of rising inflation. There are several types of real asset investments that may be included in this sub-asset type. The most common are outlined below and comprise our blended benchmark. However, from time to time other real assets may be identified that do not fit nicely into one of these buckets. In these instances it is expected that the investment will be assessed based upon its risk, return, and diversification characteristics relative to the buckets identified and only made if it is expected that the asset improves the overall risk adjusted return of the portfolio.

- *Real Estate* - would be expected to provide a relatively high level of income and provide diversification to the overall fund. Real estate includes real estate investment trusts (REITS), opportunistic real estate funds, direct real estate holdings, and mezzanine debt investments.
- *Commodities* - would be expected to provide superior returns during periods of unexpected inflation. Investments in this category might include a variety of derivative instruments including futures, total return swaps, options, and forward contracts, as this is how most commodities exposure is obtained. It is also possible that this category might include limited partnerships and/or commodity trading advisors (CTAs) who seek exposure to various types of commodities and commodity-related investments, including oil, gas, and other energy investments.
- *Timber* - would be expected to be very illiquid and long term in nature. Timber is expected to earn real returns equal to traditional equity investments with volatility in between stocks and bonds over long periods of time. Beta exposures in this sub-asset class will include timberland and related assets in both the United States and on a global basis.

Private Investments: This sub-asset class is expected to generate high returns with commensurately high risk. Generally, private investments are long term and illiquid in nature. The most common types of investments in this sub-asset class are identified below; however, from time to time other private investments may be identified that do not fit nicely into one of these buckets. In these instances, it is expected that the investment will be assessed based upon its risk, return, and diversification characteristics relative to the bucket identified and only made if it is expected that the asset improves the overall risk adjusted return of the portfolio.

- *Private Equity* - would be expected to provide high real returns over long periods of time while providing additional diversification to the fund even though it is understood that the diversification benefit is likely due to the lack of market pricing on these investments as opposed to a “true” diversification characteristic of these investments. Investments in this category are expected to be very illiquid and long term in nature. Investments in this category include corporate buyout, venture capital, and opportunistic/special situations. These opportunities may be identified domestically or on a global basis.
- *Private Debt* – would be expected to provide equity-like returns by purchasing debt securities to gain controlling interest in companies at a significant discount to fair value. Investments

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include debt instruments of U.S. and international 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 in this sub-asset class as debt positions are often converted to equity during the bankruptcy reorganization process.

Allowable Investments in all Sub-Asset Classes (Beta Exposures):

As it pertains to the above referenced sub-asset classes within MOSERS' portfolio, beta exposure may be gained through investments in derivative instruments including, but not limited to futures, forward contracts, swaps, and options per the terms of each manager's specific governing documents and in accordance with the limitations outlined in this governance policy under "Investment Limitations." In addition to derivative instruments, leverage may be utilized in the implementation of these sub-asset classes in accordance with each manager's specific governing documents and in keeping with the investment limitations outlined in this policy. Additional investments which are allowed include exchange traded funds (ETFs), warrants, rights, convertible bonds, and preferred stock. Currency hedges may also be used for non-dollar exposures within each respective asset class as outlined in each manager's governing document. Long/short investment strategies may also be employed per the terms of the Investment Limitations defined in this governance policy; however, from a beta perspective, the predominance of long/short strategies would be expected to exist within the domestic equity and market neutral sub-classes.

In addition to the instruments outlined in the paragraph above, for every sub-asset class, a variety of investment structures may be utilized depending on the nature of a particular investment. Per the terms of the investment limitations outlined in this policy, these structures may include mutual funds, partnerships, limited liability companies, trusts, fund-of-funds, and separately managed accounts in which assets may be held by an external custodian who is selected and monitored by the external manager or general partner.

Alpha Strategies:

A variety of implementation strategies may be used in capturing alpha (skill-based manager returns) within the portfolio. These strategies include both traditional active management strategies and marketable alternative market neutral strategies. Marketable alternative strategies may be used as long as both the CIO and CGAC are convinced that these strategies exhibit little to no market exposure. The use of investment instruments available to these managers is broad, covering a variety of investment types and strategies across numerous asset classes. In making implementation decisions related to the alpha component of the portfolio, staff may utilize any and all investment tools so long as they are defined in each manager's governing documents and are carried out in accordance with the Investment Limitations spelled out in this policy.

PERFORMANCE MEASUREMENT:

The System's success in achieving the RRO will only be evaluated over long time periods. The reason for the

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long-term focus on this objective is to preclude the temptation to overreact to events in the marketplace that have no relevance in long-term asset/liability management. The resulting dilemma is the conflicting need to evaluate investment policy implementation decisions over shorter time frames while maintaining the longer-term focus necessary to manage and measure the fund's performance relative to the RRO.

To address this problem, the board has established the following categories to measure performance:

1. Board Policy Decisions
2. CIO Decisions
 - a. Strategy Decisions
 - b. Implementation Decisions

Board Decisions

The value added through Board Policy decisions is measured by the difference between the Policy Benchmark return and the Required Rate of Return Objective (defined as Real Return Objective + Inflation). This difference captures the value added by the board through their broad policy asset allocation decisions relative to the required rate of return objective necessary to meet the actuarial assumptions. A Policy Benchmark return greater than the Required Rate of Return Objective reflects value added through board decisions. A Policy Benchmark return less than the Required Rate of Return Objective reflects losses or shortfalls in performance in funding the liabilities of the system. These policy decisions are measured over long periods of time.

CIO Decisions

There are two components to the CIO decisions that are monitored by the Board on an ongoing basis:

Strategy Decisions:

Strategy Decisions are sub-asset class asset allocation choices made by the CIO, with approval from the CGAC to deviate from the Policy Benchmark weights and a certification from the ED that the proposed deviation is in compliance with the board's Investment Policy. The value added through these decisions to overweight and/or underweight these sub-asset classes is measured by the difference between the Strategy Benchmark return and the Policy Benchmark return. This difference captures the value added by the CIO through sub-asset class strategic decisions relative to the board's broad policy allocation decisions. A Strategy Benchmark return greater than the Policy Benchmark return reflects value added through the with-in class allocation decisions. A Strategy Benchmark return less than the Policy Benchmark return reflects losses to the fund's performance based upon strategy decisions. Strategy decisions should be measured over all periods of time.

Implementation Decisions:

Implementation Decisions are money manager selection choices made by the CIO with the approval of the CGAC and a certification by the ED that the proposed manager selection choices are in

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compliance with the board's Investment Policy. The value added through these manager selection decisions is measured by the difference between the Actual Portfolio return and the Strategy Benchmark return. This difference captures the value added through these manager hiring decisions. An Actual Portfolio return greater than the Strategy Benchmark return reflects value added through these manager selection decisions. An Actual Portfolio return less than the Strategy Benchmark return reflects losses to the fund's performance based upon implementation decisions. Implementation decisions should be measured over all periods of time.

PERIODIC REPORTS:

The board will monitor performance through periodic reports that will allow assessment of broad policy decision, strategic (with-in class) allocation decisions, and implementation decisions. All performance shall be calculated using time-weighted rate of return methodology.

- Quarterly, the CIO will submit a report to the board addressing the System's success or lack thereof in accomplishing the investment "ends" based on the benchmarks described within this policy at the total fund level and asset class levels. This report will also include a summary of due diligence meetings held throughout the quarter, and will also provide the board with a brief commentary by the CIO and/or CGAC which summarizes their thoughts on the market and key strategic decisions made in the quarter along with justification for those decisions.
- Not less often than every five years, a formal asset/liability study will be conducted. In the interim, the CIO shall submit an opinion to the Board on an annual basis, at the first board meeting following the beginning of the new fiscal year that addresses the continued prudence of the current asset mix in achieving the RRO.
- Annually, a representative of Cost Effectiveness Measurement or another external consultant shall report to the board regarding the System's success or lack thereof in minimizing implementation cost without negatively impacting performance.

MOSERS GOVERNANCE POLICY

(Adopted September 14, 1999, with amendments through November 15, 2007)

POLICY TYPE: ENDS

POLICY TITLE: *MEMBER BENEFITS*

The “ends” to be achieved through the benefits administered by MOSERS consist of:

Benefit plan structure issues

- To maintain a benefit plan structure, which is externally competitive with the marketplace, internally equitable, and consistent with the state’s goal of allowing career state employees to maintain a reasonable standard of living at retirement.

Member service issues

- To ensure that members receive high quality service from MOSERS’ staff.
- To enhance services to all members.
- To provide training programs that meet the needs of our members across multiple age ranges.

Communications issues

- To provide members with access to information about the benefits administered by MOSERS in a cost-effective and timely manner.
- To ensure that members receive updates on plan changes that are individualized and are distributed effectively.

Administrative issues

- To ensure that benefit recipients receive their payments in a cost effective and timely manner.
- To ensure the security and accuracy of member records.

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(Adopted September 14, 1999, with amendments through November 15, 2007)

POLICY TYPE: ENDS

POLICY TITLE: *LEGISLATION*

To fulfill its mission and to provide consistency in its policies, the MOSERS' Board of Trustees hereby adopts the following Ends Policy with respect to legislation. In adopting this policy, the Board acknowledges its responsibility to perform its duties for the exclusive purposes of providing benefits to participants and their beneficiaries, and defraying reasonable expenses of administering the System. The Board further acknowledges that its duty to the System's participants and beneficiaries takes precedence over any other duty.

Advocate/Activist - In this role, staff will support:

- Proposals which give the Board increased flexibility in its administration;
- Proposals which provide remedies for inequitable, unfair or discriminatory benefits;
- Proposals which correct structural deficiencies in program design;
- Retirement program changes developed through a collaborative effort where the opinions of all relevant stakeholders are considered and the changes do not otherwise conflict with the system's objectives;
- Proposals which add protection to the trust;

Information Source – In this role, staff will be available for technical commentary but will remain neutral and take no position on:

- Proposals which do not significantly affect the benefit interests of our stakeholders and which do NOT significantly impact MOSERS' benefits or the administration of the System;
- Proposals which have conflicting policy implications;

Protector: Act when MOSERS is threatened, when mandates are proposed, or when limitations to the Board's authority would result. In this role, staff will oppose:

- Proposals which threaten the Trust;
- Proposals which deprive members of vested benefits and do not provide an equivalent, compensating benefit;
- Any change which would endanger the tax-exempt status of MOSERS and the deferred treatment of income tax on employer contributions and related earnings;
- Any investment mandate or restriction on the Board's investment authority;
- Proposals which create a benefit change for a subcategory within a member classification;
- Proposals which reduce or limit the Board's administrative authority;

Technical Advisor: Staff will review all proposed legislation which impacts programs administered by MOSERS and provide technical comments and fiscal information to the sponsor and the appropriate

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legislative oversight agencies. Beyond that, staff will offer alternatives and provide an unbiased analysis, including the pros and cons of proposals, when appropriate.

NOTE: "Stakeholders" means those people or entities who have an interest in the performance of the System, i.e., customers (members, beneficiaries, and employing agencies), the legislative, executive, and judicial branches of state government, and the taxpayers.

This Ends Policy is intended to provide management staff with general policy guidance in formulating positions on legislative proposals and in no way binds the MOSERS' Board of Trustees from adopting a differing policy position on any specific legislative proposal presented for Board consideration.

IMPLEMENTATION: Subject to budgetary approval by the board of trustees, the executive director may, in connection with this policy, retain an employee(s) or the services of a governmental relations consultant or firm of such consultants for assistance with interaction with members of the general assembly and the administration.

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(Adopted September 14, 1999, with amendments through November 15, 2007)

POLICY TYPE: ENDS

POLICY TITLE: *SOUND ACTUARIAL CONDITION*

The ends to be maintained from an actuarial standpoint are as follows:

To collect contributions based on contribution rates that have been determined by a qualified actuary based on assumptions, which are reasonable in relation to long-term plan experience. The contribution rates so determined are intended to remain relatively level as a percent of payroll from generation to generation of Missouri citizens and comply with standards promulgated by the American Academy of Actuaries and Governmental Accounting Standards Board.

(reference: Board rules 2-17 and 3-15 contain procedures for selection of actuary: Beginning 2003, the Executive Director shall retain an independent actuarial firm to perform an actuarial audit at least every 5 years in order to evaluate the actuarial firm that is currently providing actuarial services to the Board and report the results of that audit to the Board at a Board meeting held during the first quarter of that year. The Executive Director may recommend changes to the contract with the actuarial firm that is currently providing actuarial services to the Board or the issuance of a request for proposal from additional actuarial firms based on the information provided in the actuarial audit report, or whenever the Executive Director determines it is appropriate to do so.)

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POLICY TYPE: ENDS

POLICY TITLE: *RULEMAKING*

The Ends to be achieved with regard to the promulgation of rules are as follows:

To promulgate rules as necessary and in accordance with section 104.1063, RSMo, to implement statutes and to provide members with adequate notice of statutory benefit provisions.

MOSERS GOVERNANCE POLICY
(Adopted September 14, 1999, with amendments through November 15, 2007)

APPENDIX A

SCHEDULE FOR 2008 BOARD MEETINGS and RELATED MAILINGS

January 17, 2008 1:00 p.m.

Action Items:

- Election of Officers
- Deferred Compensation Items (tentative)
- Audit Services Renewal
- Legislative Items (tentative)

Governance Requirements:

- Investment Performance Report

Executive Session

January mailings:

Investment Managers Due Diligence Reports

Mailed as Part of Board Meeting Package but Not Included on Meeting Agenda:

- Value Added
- Operations Outlook

March 20, 2008 1:00 p.m.

Action Items:

- Deferred Compensation Items (tentative)
- Experience Study
- Actuary Audit Report
- Legislative Items (tentative)

Governance Requirements:

- Quarterly Investments “Ends” Report
- External Investment Consultant Report on Internally Managed Portfolios (verbal)

Executive Session:

- Office of Internal Audit List of Proposed Audits and Projects
- Quarterly and Annual Anti-Terrorism Investment Report

February or March Mailings:

Investment Managers Due Diligence Reports (including external investment consultant on IMAs)

Mailed as Part of Board Meeting Package but Not Included on Meeting Agenda:

- Value Added
- Operations Outlook

June 19, 2008 9:00 a.m.

Action Items:

- Deferred Compensation Items (tentative)

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- Review and Adoption of FY2009 Budget
- Legislative Items (tentative)

Governance Requirements:

- Quarterly Investments “Ends” Report
- Internal Auditor Report on the Chief General Asset Consultant Performance

Executive Session:

- Quarterly Anti-Terrorism Report
- Approve Internal Audit Plan

Mailings:

FY09 Proposed Budget

Life Insurance and Long-Term Disability Programs Consultant Report

Investment Managers Due Diligence Reports

CURP Due Diligence Report

Mailed as Part of Board Meeting Package but Not Included on Meeting Agenda:

- Value Added
- Operations Outlook

July 10& 11, 2008 (1 ½ days) Board Meeting/Retreat

September 18, 2008 9:00 a.m.

Action Items:

- Deferred Compensation Items (tentative)
- Adopt FY 2010 Contribution Rates/Review Assumption Rates

Governance Requirements:

- CEM Benefit Administration Report
- CEM Investment Report
- Annual Chief Investment Officer Asset Allocation Report
- Quarterly Investment “Ends” Report

Executive Session:

- Quarterly Anti-Terrorism Report

Mailings:

Investment Managers Due Diligence Reports (including external investment consultant on IMAs)

Chief Auditors Report on Investment Benchmarks and Performance Calculations

Annual Executive Director Report (Due September 1)

Chief Counsel Exception Report (Due September 1)

Chief Auditor Exception Report (Due September 1)

Mailed as Part of Board Meeting Package but Not Included on Meeting Agenda:

- Value Added
- Operations Outlook

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November 20, 2008 9:00 a.m.

Action Items:

- Deferred Compensation Items (tentative)
- Annual Report Confirming Due Diligence Meeting Requirements
- Review of Ends Policies
- Affirmative Action Policy Report
- 2009 Board Meeting Schedule
- Legislative Program Report for Next Year (tentative)

Governance Requirements:

- Quarterly Investment “Ends” Report

Executive Session:

- Quarterly Anti-Terrorism Report

Mailings:

Investment Due Diligence Reports

Mailed as Part of Board Meeting Package but Not Included on Meeting Agenda:

Value Added

Operations Outlook

* Life and Ltd board rules:

5-1 Procurement by Contract (Life insurance)

Under the authority granted by sections 104.517 and 104.1072, RSMo, the board has elected to procure life insurance by contract through a group policy issued by an insurance company licensed in the state of Missouri.

5-2 Procurement Procedures (Life insurance)

The following information shall be provided at applicable intervals, referenced below, to the Board at a Board meeting held during the second quarter of each year:

(A) The Insurance/Risk Manager Consultant shall advise the board annually of the conditions of the life insurance marketplace and whether or not rates have changed significantly.

(B) Beginning in 2003, the Insurance/Risk Manager Consultant and MOSERS' staff shall conduct periodic due diligence meetings with the life insurance provider at least every three years in order to analyze plan design, customer service, and rate issues. The Consultant and MOSERS' staff will summarize the findings of these meetings in a report to the Board.

(C) The Executive Director may recommend to the Board changes to the life insurance

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contract or the issuance of a request for proposal from additional insurers:

- based on the information provided to the Board under this rule, or
- whenever the Executive Director determines it is appropriate to do so.

6-1 Procurement by Contract (Ltd insurance)

Under the authority granted by sections 104.518 and 104.1075, RSMo, the board has elected to procure long-term disability coverage by contract through a group policy issued by an insurance company licensed in the state of Missouri.

6-2 Procurement Procedures (Ltd insurance)

The following information shall be provided at applicable intervals, referenced below, to the Board at a Board meeting held during the second quarter of each year:

(A) The Insurance/Risk Manager Consultant shall advise the board of the conditions of the long-term disability insurance marketplace and whether or not rates have changed significantly.

(B) The Deputy Executive Director Chief Operations Officer shall regularly survey members regarding general long-term disability insurance service issues and report the results of that survey to the Board.

(C) Beginning in 2003, the Insurance/Risk Manager Consultant and MOSERS' staff shall conduct periodic due diligence meetings with the long-term disability insurance provider at least every three years in order to analyze plan design, customer service, and rate issues. The Consultant and MOSERS' staff will summarize the findings of these meetings in a report to the Board.

(D) The Executive Director may recommend to the Board changes to the long-term disability insurance contract or the issuance of a request for proposal from additional insurers:

- based on the information provided to the Board under this rule, or
- whenever the Executive Director determines it is appropriate to do so.