Police & Firemen's Retirement System of New Jersey
Investment Policy Statement

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Chapter I: Introduction

A. Purpose

The purpose of this Investment Policy Statement (the “Policy” or “IPS”) is to provide clear guidelines for the management of the retirement fund assets or plan assets by or on behalf of the Board of Trustees for the Police and Firemen’s Retirement System of New Jersey. This Policy establishes principles, policies, procedures, and guidelines for the investment practices of the Board and the Board’s representatives. The Board shall endeavor to review and revise the Policy periodically and make changes as necessary. The Policy outlines fundamental objectives, goals, restrictions, and responsibilities to assure that:

1. The Board, Staff, Investment Consultants, Investment Advisors and Investment Managers clearly understand the relevant objectives and policies of the Board and the Plan;

2. The Investment Advisors shall be given guidance and limitations on the investment of the Plan’s assets; and,

3. The Board has a meaningful basis for evaluating the investment performance of individual Investment Advisors and Investment Managers, as well as for evaluating overall success in meeting its objectives.

This Policy has been drafted by the Investment Committee and approved by a majority of the Board. Material deviation from this document is not permitted without explicit written permission, in advance, from the Board.

B. Investment Objectives

The overall investment objective of the Plan is to support PFRS’ mission to provide secure and sustainable retirement benefits for its members. Meeting this objective necessitates making active decisions about financial markets in a long-term framework which, by its nature, involves taking reasonable risks.

The structuring of the investment Fund should be considered in conjunction with the funding level, volatility, and direction of the economic and actuarial funded status of the Plan. The investment Plan should be considered in conjunction with the funding level, volatility, and direction of the contribution rates that will need to be paid by both employees and employers in the Plan.

C. Investment Principles

This Policy requires that PFRS develop and maintain a set of Investment Principles. Managing the investment program requires PFRS to provide a consistent and transparent framework to guide the PFRS investment decision making process. These beliefs reflect the PFRS Board's fiduciary responsibility to plan members and beneficiaries.

- We believe in keeping our members and their beneficiaries at the forefront of all we do and providing them with a secure pension which requires an investment program designed to maintain the sustainability of on-going benefits. The investment program is designed to:
    - Accumulate sufficient assets to fund the retirement benefits of PFRS members and beneficiaries over the long term.
    - Maintain sufficient liquidity to pay such benefits as they become due.
    - Receiving the actuarially determined contributions is critical to ensuring the accumulation of sufficient assets.
- We believe a strong governance structure is crucial to our success. A strong governance structure includes:
    - A common understanding of our fiduciary responsibility and mission.
    - A well-defined and documented system of checks and balances, which recognizes the need for organizational agility.
    - Clearly delineated roles and responsibilities:
        - It is the responsibility of the Retirement Board to set policy.
        - It is the responsibility of the Executive Director and Chief Investment Officer and staff to implement policy and maintain operations.
    - Internal policies and procedures which set forth clear expectations and processes to ensure a culture of integrity, respect, accountability, transparency and compliance.
    - Valuing broad and diverse input.
- We believe as fiduciaries, we must be responsible and thoughtful stewards of the fund, acting for the exclusive benefit of the contributing employers, active and retired members of the retirement system and surviving beneficiaries. Responsible stewardship includes:
    - Making prudent investment choices, consistent with our fiduciary duties under a disciplined risk-controlled strategy.
    - Promoting responsible corporate governance, consistent with our Duty of Loyalty to act for the exclusive benefit of PFRS members and beneficiaries.
    - When feasible taking an active role in our investments, including but not limited to:
        - Voting proxies.
        - Participating on Vendor Advisory Committees.
        - Capitalizing on the System's assets to achieve investment goals and objectives in a responsible manner.
    - Collaborating with other institutional investors to harness collective influence in engagement efforts.
    - Participating in external organizations to help shape future rules and regulations related to long term investing. (Efforts to advocate for uniform reporting and disclosure templates).
- We believe the most significant contributor to the fund's long term investment performance is asset allocation. The asset allocation process is designed to:

    - Maximize the likelihood the Fund meets its expected return and liquidity requirements.
    - Ensure the overall portfolio is broadly diversified, subject to statutory requirements.
    - Minimize risk.
    - PFRS is a universal owner of the global public markets, with a highly diversified, long term portfolio. We hold the following beliefs about the capital markets:
        - Markets are generally efficient.
        - Passive management provides broad, diversified exposure, while active management can yield benefits when the investment advisor has an informational, technical or operational advantage.
        - Alternative investments allow the System to expand the opportunity set beyond public markets and can be used to enhance returns and diversify risk.
    - Cost, diversification, risk and return should be considered within the context of the attributes of each asset class, individually, and its contributions to the portfolio as a whole.
    - Performance will be monitored and evaluated net of fees and costs.
- We believe risk is inherent in all investments and must be managed.
    - PFRS is set up to assess and address risk, including the ability to manage the Funds' assets relative to liabilities, meet liquidity requirements and maintain funding levels.

Chapter II: Governance and Responsibilities

A. Legal Authority and Fiduciary Obligations

The enabling statutes that created the independent Board of Trustees (“Board”) for the Police and Firemen’s Retirement System of New Jersey (“PFRSNJ”) are located in Public Law 2018, Chapter 55. Specifically, the act that created the independent Board and retirement system states that “[t]he board of trustees shall have authority to formulate and establish, amend, modify or repeal such policies as it may deem necessary or proper, which shall govern the methods, practices or procedures for investment, reinvestment, purchase, sale or exchange transactions to be followed by the Division of Investment.” N.J.S.A. 43:16A-13(19); N.J.S.A. 43:16A-14.

The general responsibility for the proper operation of this retirement system is hereby vested in the Board, and, as specified, the parties established pursuant to subsection D. of this subsection. N.J.S.A. 43:16A-13.

The legislature directed that the Board shall act exclusively on behalf of the contributing employers, active members of the retirement system, and retired members as the fiduciary of the system. The primary obligation of the Board shall be to direct policies and investments to achieve and maintain the full funding and continuation of the retirement system for the exclusive benefit of its members. N.J.S.A. 43:16A-13.

The Board may also review and approve agreements which may be necessary or convenient for the management of the investments of the retirement system. The Board shall also have the authority to inspect and audit the respective accounts and funds of the Retirement System administered by the Division of Investment, or a successor entity, and take appropriate action as necessary to effectuate the long term viability of the system. N.J.S.A. 43:16A-13.

B. Fiduciary Responsibilities

The primary responsibility of the Board, as a fiduciary, is to manage the PFRS plan solely in the interest of participants and beneficiaries and for the exclusive purpose of providing benefits and paying plan expenses. Fiduciaries must act prudently and must follow the law and the terms of plan documents, in our case, the Investment regulations of N.J.A.C. 17:4A, this Investment Policy Statement, and such other policies and procedures as may be approved by the Board from time to time.

A fiduciary must avoid all conflicts of interest. Being a fiduciary imposes the highest standard recognized under the law, to protect the plan assets against, waste, mismanagement, fraud, or personal gain. It also requires fiduciaries of the plan to apply the prudent person standard to their conduct, to ensure that appropriate due diligence is undertaken before making either a benefit or investment decision that will affect the specific plan or its participants, and to only take such decisions as the fiduciary believes are in the best interests of the plan participants.

The fiduciary standard protects the PFRS's assets by requiring any person or entity that exercises discretionary control or authority over the plan administration or asset management, as well as anyone who provides investment advice to a plan for compensation, to act solely in the best interest of the plan participants.

In acquiring, retaining, selling, exchanging and managing investments, the Board shall exercise the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. [N.J.S.A. 52:18A-89]

The Board shall have the authority to direct investment policy, which includes asset allocation, investment strategy, rebalancing, and investment advisor selection. The Board shall have the authority to direct the investment and reinvestment policies for or on behalf of the PFRS, with the exception of those monies held by Common Pension Fund L. [N.J. S.A. 52:18A-89]

Fiduciaries must avoid all conflicts of interests to protect plan assets against waste, mismanagement, fraud, or personal gain. In this regard, no Board member, member of a Committee of the Board, or employee of the Board, shall accept from any person, whether directly or indirectly any gift, favor, service, employment, or offer of employment, or any other thing of value, including contributions to the campaign of a member or employee as a candidate for elective public office. [N.J. Stat. § 43:16A-13] In light of this, the Board has adopted an ethics policy, which may be amended from time to time at the Board's discretion, and which must be either identical to the "New Jersey Conflicts of Interest Law," P.L. 1971, c.182 (C.52:13D-12 et seq.) or more restrictive, but not less restrictive. Furthermore, the Board or any employee of the Board shall be prohibited from: (1) having any direct interest in the gains or profits of any investments of the PFRS; (2) using the moneys of the Retirement System, directly or indirectly, except to make such current and necessary payments as are authorized by the Board; or, (3) becoming an endorser or surety, or in any manner an obligor for moneys loaned to or borrowed from the Retirement System. [N.J. Stat. § 43:16A-14.]

C. Policy Review & History

It is the intent of the Board to establish and implement a review process in which this Policy will be reviewed periodically. Some of the objectives of the review process are:

- To review past decisions guided by the Policy relative to the stated investment principles
- To review the appropriateness of all supplemental polices including the Asset Allocation Policy
- To assure compliance with the Policy
- To keep the Policy current to new investments and investment strategies
- To establish and maintain the Investment Policy Statement history
- To develop new policies as needed

The date of revisions to the Policy shall be listed in Addendum A to the Policy.

D. Roles and Investment Responsibilities

1. Board of Trustees

   In order to fulfill its duties and responsibilities the Board, pursuant to this Policy, shall undertake each of the following:

   - Establish the asset allocation, sub-asset allocation, and policy benchmark.
   - Approve the investment structure for applicable asset classes identified in the Asset Allocation Policy and Investment Regulations.
   - Select qualified Investment Consultant(s) and Alternative Investment Manager(s) and Investment Advisor(s) to assist in all aspects of the management of the fund.
   - Monitor and review the performance of selected Alternative Investment Manager(s) and Investment Advisor(s) to determine achievement of goals and compliance with policy guidelines.
   - Monitor the Fund for compliance with Board policies, regulations, directives and applicable laws.
   - Periodically monitor the costs of the investment operations.
   - At least annually, review and adopt policies, objectives or criteria for the operation of the investment operation and make such changes as appropriate.
   - Review applicable investment plan(s) prepared by the staff and/or Investment Consultant(s). As conditions warrant, revise the investment plan(s).
   - Retain administrative and professional staff and consultants as required to implement its duties and responsibilities.
   - Make and execute agreements which may be necessary or convenient for the management of the investments of the retirement system.
   - Inspect and audit from time to time the accounts and funds administered by the Division or successor entity.
   - Fulfill any other responsibilities as provided in the enabling statute, investment regulations, or any future document(s) that pertain to the investment of plan assets or as may be required of a fiduciary in the circumstances.

2. Investment Committee

The Investment Committee is responsible for reviewing and recommending to the Board for approval all policies, strategies, procedures, investment consultants, advisors, and investment funds.

The Investment Committee is responsible for monitoring the effectiveness of each investment advisor or investment consultant. The Investment Committee shall recommend to the Board for approval the termination of any investment advisor or consultant. If approved, the Investment Committee shall report the effectuation of any such termination to the Board through the Chairman immediately upon occurrence.

3. Executive Director

In accordance with Chapter 55, *"The Board of Trustees shall select and employ an executive director, who shall be responsible for recommending and implementing the strategic direction of the board from an operational perspective. The executive director shall provide strategic direction, planning, and leadership to the board; organize, develop, and supervise a management team to provide optimal results; maintain oversight of administrative operations conducted by the board; develop an annual budget and a salary and compensation guide for any managerial positions that are not subject to Title 11A, Civil Service, of the New Jersey Statutes, arrange board agendas with the approval of the board's chair; appoint administrative staff; execute contracts on behalf of the board; and perform any other responsibilities designated to the executive director by the board… The executive director shall act as a fiduciary to the retirement system and shall be under a duty to perform the obligations set forth herein according to the interest of the beneficiaries of the system."*

In order for the Executive Director to fulfill the statutory and fiduciary obligation to the retirement system and beneficiaries of the system, he/she will:

- Participate as a non-voting member of the Investment Committee in order to advise the Chief Investment Officer and Trustee(s) as needed.

- Work with the Chief Investment Officer and Director of Legal affairs on all contracts and agreements from Investment Consultant(s) and Alternative Investment Manager(s) and Investment Advisor(s).

- Assist the Chief Investment Officer in recruiting all members of the investment staff.

- In coordination with the Chief Investment Officer, maintain an operating budget for investment needs, including but not limited to all investment infrastructure and Investment operations.

- Coordinate fiduciary training for trustees in accordance with Chapter 55.

- Develop a strategic direction in accordance with the Chief Investment Officer and Board's approved Asset Allocation policy.

- Any other responsibilities designated by the Board.

4. PFRS Investment Staff

Investment Staff will be responsible for assisting the Board on fulfilling the Board's fiduciary responsibility of monitoring all portfolios that contain plan assets. In assisting the Board with monitoring the Plan, PFRS Investment Staff is expected to monitor/review:

- The Plan's performance.
- The Plan's Asset Allocation and investment strategies as well as their implementation.
- The Plan's compliance with applicable Board directives, regulations, and applicable laws.
- Investment Advisors.

Staff will also be responsible for the preparation and regular reporting of all monitoring activities.

Investment Staff will be responsible for developing, with the assistance of investment consultants, the asset allocation policy and all investment strategies.

Investment Staff will be responsible for leading all investment consultant, investment advisor, investment manager and investment fund searches with the assistance of a general investment consultant ("General Investment Consultant").

5. General Investment Consultant

A General Investment Consultant will be hired by the Board. This consultant will work closely with the Investment Committee and the Investment Staff. The General Investment Consultant will be responsible for:

a) Performing an asset/liability study every third year or as requested.
b) Developing an Asset Allocation Policy for consideration by the Board, including the development of capital market assumptions for relevant asset classes.
c) Developing asset class strategies for consideration by the Board.
d) Assisting in the search for external advisors.
e) Assisting in the search for alternative investment funds.
f) Producing and delivering Quarterly Performance Reports for the Investment Committee.
g) Assisting in monitoring all public market portfolios.
h) Assisting in trustee education as requested.
i) Assisting in special projects as requested from time to time.

6. Asset Class Consultant(s)

   As needed, the Board will retain specialty consultants for specific asset classes. These consultants are responsible for:

   a) Assisting the Investment Staff and General Investment Consultant in developing specific asset class strategies.
   b) Monitoring all asset class portfolios assigned.
   c) Assisting in selecting and performing due diligence of asset class specific funds.
   d) Assisting in creating asset class pacing and investment plans.
   e) Assisting in trustee education as requested.
   f) Working with the General Investment Consultant to produce and deliver Quarterly Performance Reports for the Investment Committee.
   g) Assisting in special projects as requested.

7. External Portfolio Advisors

   As needed, the Board will retain external portfolio managers as advisors for specific allocation mandate classes. These advisors are responsible for:

   a) Advising the Board in regard to specific portfolio allocations.
   b) Recommending buy and sell transactions within specific markets.
   c) Producing and delivering Quarterly Performance Reports for the Investment Committee.
   d) Assisting in trustee education as requested.
   e) Assisting in special projects as requested.
   f) Ensuring compliance with applicable laws, regulations and directives.
   g) Fulfilling any audit requests internally or externally as requested.

8. Custodian

   The New Jersey State Treasurer is the statutory custodian for all of the PFRS investment assets and shall on behalf of PFRSNJ, select the depositories, negotiate custody contracts and fees.

   The Chief Financial Officer of the Plan shall monitor the selected custodian and ensure the proper maintenance of the official accounting book of record for PFRS, which shall provide the financial statements of the system.

   The custodial bank is responsible for the safekeeping of all securities, income and principal collection and the settlement of transactions within the portfolios of the Retirement System as well as other ancillary services as selected by the Investment Committee and the Board. In coordination with the custodial bank, the accounting book of record shall be used to calculate all rates of return for all portfolios, aggregates, and total fund level of the Retirement System, whether through the custodian or a third party.

In order to ensure the accuracy of the valuations and returns of the Retirement System, reconciliations will be completed comparing the accounting book of record to the investment manager records for the portfolio which will validate at a minimum, security holdings and market value.

In addition, the Valuation Committee shall review and determine the pricing hierarchy of the custodian as well as interim valuation methods for nonpublic securities that will be used to determine the fair value of the Retirement System's investments for financial and performance reporting, respectively. The custodian does not provide valuation on private investments or private investment funds. The custodian records and accounts for the valuations provided by the manager or general partner.

Chapter III: Strategic Investment Planning

A. Investment Philosophy

The investment philosophy of the Board and Investment Committee is based on the mission of PFRS to support the retirement income security of its beneficiaries. As an institutional investor with significant liability duration, the Board intends take a long-term perspective, which is consistent with the duration of the financial obligations of the retirement program. These statements represent the core values and beliefs that form the basis of the investment program.

It is the duty of the Board to make the long-term asset allocation decisions. Investment Staff are tasked with implementation through prudent and sound strategic decisions. Asset allocation studies should focus on the Retirement System's liabilities, anticipated liquidity needs, risk tolerance and the probability of achieving its long-term return goals. However, the cyclical nature of the economy means asset classes or investment strategies may be more or less attractive relative to each other in given economic environments. It is the intention of the Board to maintain flexibility in its asset allocation to preserve Retirement System assets and capitalize on this cyclicality within prudent risk constraints.

The Board seeks to achieve the objectives of the investment program by supporting a culture that focuses on consistent positive performance over the long-term while not engaging in undue risk. The success of the investment program is enhanced by leveraging the competitive advantages of the investment program, including the use of external portfolio advisors to take advantage of performance differences in asset classes, strategies, and styles. Trustees should focus on long-term investment horizons despite potential short-term underperformance.

Portfolio construction should focus first on the allocation and balancing of risk; it is the allocation of risk that drives portfolio returns. It is the Board's philosophy that understanding and balancing risks across asset classes improves the consistency of returns for a given level of risk. Returns are the end product, where risks are the inputs. Investment risk cannot be avoided but can be managed and it is necessary to assume a prudent level of risk to achieve a desired level of return. The management of investment risk is an important part of the investment program but, because of its complexity, a more robust discussion is provided below in Chapter VII: Risk Management.

Portfolio diversification is critical to minimize the risk of excessive losses. Effective portfolio diversification requires a fundamental understanding of the economic drivers of risk and return. Therefore, it is the Board's intention to construct a portfolio that is positioned for various economic conditions, including the preservation of Retirement System assets during market downturns.

Costs matter and need to be effectively managed. Decisions to invest cannot be made without considering costs, and costs must be actively and prudently managed whenever possible to maximize investment returns. Costs should always be evaluated relative to net returns.

B. Performance Objectives

1. Retirement System: The performance objective for the total Retirement System asset portfolio is to obtain overall investment returns over the long term in excess of the approved actuarial assumed rate of return and the investment benchmark adopted by the Board. The total Retirement System should also achieve investment results commensurate to the amount of active risk (tracking error or other appropriate risk measurement metrics) assumed. At a <u>minimum</u>, active returns are expected to exceed benchmark returns net of fees and costs.

2. Asset Classes: The performance objective in each asset class is to obtain overall investment returns over a full market cycle in excess of the adopted benchmark returns or stated return objective. Active returns over the adopted benchmark returns are expected to exceed the cost of management (for external advisors) and be proportionate to the amount of active risk (tracking error) assumed at the asset class level. The expected excess returns for the public market investments are a function of the active return expected per unit of active risk. Alternative Investments are evaluated over rolling 10-year periods or other specified time periods using realized internal rates of return ("IRR") and gross realized multiples.

C. Asset Allocation

Asset allocation involves establishing asset class allocation policy targets and ranges and managing those asset class allocations within their policy ranges. The Board recognizes that the majority of the variation in investment returns of a large, well-diversified pool of assets can typically be attributed to asset allocation decisions. The performance objective is to achieve positive active asset allocation returns over full market cycles. The Asset Allocation Policy shall be developed with the following objectives:

1. A rate of total return sufficient to meet or exceed the actuarial expected rate of return benchmarks developed by the Investment Committee and approved by the Board within prudent levels of risk and liquidity;

2. Sufficient diversification to minimize the risk of significant loss in any single investment and preserve capital to the extent possible;

3. Adherence to the asset class policy ranges approved by the Investment Committee, with any rebalancing being performed efficiently and prudently;

4. Adequate liquidity to meet cash needs; and

5. Positive returns through any active asset allocation decisions subject to policy ranges and risk limits.

D. Asset Classes/Sub-Asset Classes, Range Limitations and Restrictions

1. Overview

The Board shall set long-term asset allocation targets that are expected to prudently meet the needs of the beneficiaries. The targets and associated ranges are outlined in the Rebalancing Policy, Referenced Policy A. The Board has set the ranges with an expectation that the Investment Committee and Staff will be prudent in its implementation decisions in an effort to prudently manage risk and maximize the expected return given that risk.

Formal experience studies will be conducted at least every three years by the system's actuary. The Funding Level study will be conducted annually, by the system's actuary. There will be ongoing annual reviews of the asset allocation strategy based on updated capital market assumptions.

Within each asset class included in the Asset Allocation Policy and Investment Strategy, the Investment Committee shall adopt portfolio implementation strategies and investment styles to meet the overall investment objective of each asset class. The appropriate external consultant for each asset class will present to the Investment Committee at least annually an overview of their program, including the last three years (if available) of performance and a strategic plan for the asset class.

2. Primary Investment Objectives

Each asset class and sub-asset class will be evaluated on its contribution to:

a) Cash Management
b) Income
c) Growth
d) Risk Management

3. Definition of “Asset Class”

   An asset class is a category of financial instruments. These categories can be physical assets or financial assets. The assets are grouped into classes based on whether they show similar characteristics, behave in the same way in the market, or are governed by the same laws and regulations. Asset classes also have defined markets and long-term history of quantifiable performance and risk. Asset classes are not investment objectives (income, growth, risk management, etc.). The definition of certain asset classes are included in the Board’s investment regulations at N.J.A.C 17:4A.

4. Definition of “Sub-Asset Class”

   A sub-asset class is a strategic part of an asset class that is meant to establish strategic means to experience positive alpha or manage risk. The best example is the domestic equity market which has 9 sub-asset classes and even more divisions of sectors and industries.

E. Rebalancing Guidelines

Rebalancing is a vital part of the discipline of investing in multiple asset class portfolios. Rebalancing guidelines are established and approved by the Investment Committee and implemented by the Staff. The approved Rebalancing Guidelines appear in the Rebalancing Policy, Referred Policies A.

For alternative investment asset classes, a current pacing plan must be utilized in projecting the necessary rebalancing schedule.

F. Permissible Assets

All investments held in the PFRS portfolio must fall within the approved asset classes. The list of approved asset classes appears in Referenced Policy B, Permissible Investments Policy and must be in compliance with the Board approved Investment Regulations. This list will be reviewed annually, and all additions or subtractions will be presented to the Investment Committee for review and recommendation and approved by the Board. Any required revisions to the Investment Regulations will be recommended to the Board by the Investment Committee.

G. Benchmarks

Benchmarks establish target investment exposures and provide a relative measure to gauge whether a particular investment strategy is meeting stated goals and objectives. Benchmarks should be derived from the asset allocation process and not from the selection of portfolio strategies. The Retirement System benchmarks shall be established to manage portfolio risk and return characteristics. Benchmarks should be established for the total portfolio, each asset class, sub-asset class and portfolio or advisor used in implementation.

Policy benchmarks shall be set by the Investment Committee for each asset class. Changes to the construction rules of any policy benchmark shall be reviewed and approved by the Committee, with any modifications deemed material requiring review and approval by the Committee. In preparation for any such review, Investment Staff and the appropriate consultant shall analyze the expected effect of the benchmark modification on the total portfolio risk and return characteristics. See Referenced Policies C, Policy Benchmark for the current benchmarks as set by the Investment Committee.

Chapter IV: Investment Implementation

A. Portfolio Implementation

Annually, or as needed, the Investment Committee will review the Asset Allocation Policy and the portfolio strategies to assure that both remain in line with the objectives of the Board. At such time that the Asset Allocation Policy must be adjusted, the Investment Committee will recommend the adjustments to the Board for approval.

B. External Investment Advisor Selection

PFRS will seek external investment advisors to help implement the asset allocation. If/when it is appropriate to retain an external investment advisor for a public markets portfolio, PFRS will engage in a public RFQ process. The public RFQ will be recommended by the Investment Committee to the Board for approval.

The completed RFQs will be evaluated by the Investment Staff and General Investment Consultant. Finalists will present to the Investment Committee. The Investment Committee will recommend the external manager/advisor to the Board for approval. A pool of such approved mangers/advisors may be maintained by the Board for ease of administration.

At all times, the Board, Investment Committee and the Investment Staff will adhere to the applicable State procurement laws under N.J.S.A. Title 52. In compliance with the State procurement laws, the Board has determined that its retention of external investment advisors shall be in compliance with the Referenced Policy D, Procurement Procedures: Investment Advisor and Investment Consultant.

C. Alternative Investment Selection

If/when it is appropriate to invest in an alternative investment fund, or establish a separately managed account by the general partner of a fund, the Investment Staff will perform the due-diligence in accordance with Referenced Policy E, Alternative Due Diligence Procedures.

The Investment Staff will coordinate the search efforts with the relevant Asset Class Consultant and the General Investment Consultant. Recommendations to the Investment Committee must include opinions from two of the following three sources: General Investment Consultant, Asset Class Consultant and the Investment Staff. All three sources will provide an independent recommendation.

The Investment Committee will review the three recommendations and will have the option to interview any of the recommended managers and/or investment funds. The Investment Committee will recommend the manager to the Board along with all terms of the mandate including, size, objective, duration and cost.

D. Advisor Termination Procedures

Consistent with IPS Section I.D.2, the Investment Committee is responsible for monitoring the effectiveness of each investment manager, Investment consultant or investment advisor. The Investment Committee shall recommend to the Board for approval the termination of any investment manager, consultant or advisor. If termination is recommended, the Investment Committee shall report the effectuation of any such termination recommendation to the Board through the Chairman immediately upon occurrence.

Chapter V: Security Transactions

Security Transactions refer to the buying and selling of securities on any established market. Chapter 55 establishes that the execution of trades is the responsibility of the Division of Investments.

The Division of Investments has established trading policies for all of the Division’s public market portfolios. When the portfolio is managed internally by Division staff, the Division staff have the authority and responsibility to buy and sell securities. When the portfolio is managed by an external advisor, the Division has procedures to review transactions prior to execution.

In accordance with case-law, prior to any transaction performed by an external manager, a list of the daily purchases and sales will be sent to the Division of Investment for review.

Chapter VI: Securities Lending

The Executive Director and the Chief Investment Officer are authorized to implement a securities lending program in accordance with the risk profile established by the Board. The program will adhere to an approved list of brokers, lending limitations and collateral guidelines as established, reviewed by the Investment Committee, and approved by the Board each of which can be changed as market conditions evolve but must be brought before the Board for approval prior to implementation.

The Chief Financial Officer will monitor the securities lending program for compliance with the Investment Regulations approved by the Board. If there is an area of non-compliance, the Chief Financial Officer will report the issue to the Executive Director immediately upon discovery. The Chief Financial Officer will also maintain the Referenced Policy E, Securities Lending Policy.

The Chief Financial Officer, with assistance of the Investment Staff, will monitor the effectiveness of the securities lending program using the same methodology for the system's external managers where applicable. The main reporting areas will be, but not limited to, returns, collateral, risk to the dollar value and securities usage levels.

Periodically, the Chief Financial Officer will provide a written report to the Board evaluating the previous year's performance and compliance. The report will also recommend any revisions to the securities lending program.

Chapter VII: Risk Management

A. Investment Risks

The Board recognizes there are many types of investment risks. As an institutional investor with significant liability duration, the Board takes a long-term perspective. These statements represent the core values and beliefs that form the basis of the risk philosophy for the Retirement System.

1. The Retirement System investment program is structured to address systematic risk (or market risk) and nonsystematic risk (risks associated with individual securities).

2. Risk management recognizes that some risks are quantitative or statistically measurable while others are not.

3. Risk reporting should be timely, relevant, and understandable.

The risk management framework is established through the adoption of this Policy and the strategic asset allocation and reasonable risk limits within this Policy for the implementation of the investment program.

The goal is not to eliminate risk but to strive to achieve a balance between risk and return. The Chief Investment Officer is responsible for reporting and effectively communicating risk management results to the Board on a regular basis. Implementation of a risk management plan is a primary responsibility for the Investment Staff and investment results will be reviewed in the context of risk-adjusted returns.

A. Investment risk cannot be eliminated; therefore, PFRS invests in a risk-aware manner in order to generate returns required to pay promised benefits, subject to its risk tolerance. PFRS will seek to understand investment risks and provide a process for overall investment risk management at both the Total Fund and asset class level.

B. Risk Management Framework

The PFRS investment risk framework is expected to evolve over time in alignment with industry best practices. The framework shall address the identification, measurement, assessment, and ongoing monitoring of investment risk.

C. Risk Limits

Total Fund active risk limits are specified in Referred Policy A of this document. In concert with the PFRSNJ's investment regulations and Referred Policy B Permissible Investments Policy.

Chapter VIII: Performance Reporting

A. Investment Reporting to the Board

1. Quarterly, the Chief Investment Officer will report to the Board both in written and oral presentation the most current balances of the Total Portfolio and each asset class as identified in the Asset Allocation Policy. The Quarterly report must also disclose current absolute and relative performance of the Total Retirement System and each asset class. The Chief Investment Officer will also make available the Quarterly Performance Report as prepared by the General Investment Consultant or an acceptable summary.

2. Annually, the Chief Investment Officer will provide a review of the Asset Allocation Policy and any recommendations from the Investment Committee for adjustments.

B. Investment Monitoring

The Investment Staff, with the assistance of the investment consultants, will present to the Investment Committee quarterly Portfolio Monitoring Reports. These reports will be applicable to all portfolios managed internally or externally. The investment staff will maintain a long-term perspective but will be tasked to identify issues within each portfolio.

Chapter IX: Proxy Voting

PFRSNJ Board believes that global public equity proxies are valuable and should be voted in the long-term interests and objectives of the Plan, in accordance with Referenced Policy F, Proxy Voting Policy. The Chief Investment Officer in coordination with the Chief Financial Officer shall maintain a Proxy Voting Policy for approval by the Board. Common stock proxies may be executed by the Chief Investment Officer, or his or her agent. The Chief Investment Officer or his or her agent that exercises a proxy vote shall keep detailed records of said voting of proxies and related actions and will comply with all regulatory obligations related thereto and the policies set forth in any further detailed PFRSNJ Proxy Voting Policy. Staff shall provide an annual summary report of proxy voting actions to the Board.

Chapter X: Class Action

PFRSNJ believes that class actions play a vital role in the recoupment of any losses or expenses related to the Retirement System's investments. The Board will approve an agent that will file class actions on their behalf. Staff will periodically present the results of the class action filings to the Board for review. PFRSNJ will not act as a lead plaintiff unless specifically approved by the Board.

Chapter XI: Code of Ethics

In compliance with Chapter 55, the board shall adopt an ethics policy identical to the provisions of the "New Jersey Conflicts of Interest Law," P.L.1971, c.182 (C.52:13D-12 et seq.). All trustees, officers, and employees of the Board shall participate in annual ethics training on the Board's policy, the New Jersey Conflicts of Interest Law, and any other applicable law, rule, or standard of conduct relating to the area of ethics as directed by the Board's Executive Director.

Additionally, the Board has voted to establish the Office of Chief Ethics Officer who serves as the ELO for the agency.

The ethics rules cover both general conduct required for employees of the State of New Jersey, such as the anti-kickback provisions, as well as the specific rules governing material knowledge that could be used to benefit an individual because of the interactions with the plan's assets. The ELO and Chief Compliance Officer shall maintain the Referenced Policy G, Ethics Policy.

Addendum A: Policy Revisions and History

Investment Policy Statement Approved by PFRSNJ Board as of May 9, 2022.

Referenced Policies as approved (pending) by the PFRS Board:

A. Rebalancing Guidelines Policy

B. Permissible Investments Policy

C. Policy Benchmark

D. Procedures: Investment Advisor and Investment Consultant

E. Securities Lending Policy

F. Proxy Voting Policy

G. Ethics Policy