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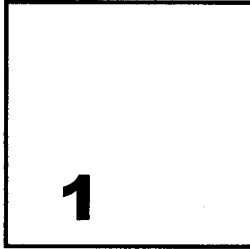
March, 2009

**Statement of Investment Policy**  
**City of Pittsburgh**  
**Comprehensive Municipal Trust Fund**

**MERCER**  
Investment Consulting

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## **Purpose**

The purpose of this document is to define the investment policy for assets of the City of Pittsburgh Comprehensive Municipal Trust Fund (CMPTF). The CMPTF was established on January 1, 1988 and provides retirement benefits to eligible employees and their beneficiaries through contributions by the City of Pittsburgh and employees covered by the plans contained within the CMPTF and investment earnings on those contributions in compliance with the applicable law and generally accepted actuarial principles.

The Board of the CMPTF shall be responsible for the approval of this policy and for any changes proposed to the policy. The Board may delegate responsibility for the administration of the policy as it determines prudent.

This document will identify and present a set of objectives, guidelines and performance standards for the assets of the CMPTF. The objectives are formulated in response to the following:

- The anticipated financial needs of the CMPTF;
- Consideration of risk tolerance; and
- The need to document and communicate objectives, guidelines and standards to the investment managers and other fiduciaries of the CMPTF's assets.

This Investment Policy Statement represents the formal document for the investment of CMPTF's assets and is to be communicated to the Consultant and investment managers for their use in developing an appropriate investment program.

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### General Provisions

The CMPTF assets consist of two components: (1) the Operating Fund and (2) the Long Term Assets. The Operating Fund is a liquidity pool to accept employee, employer and supplemental state contributions and to make benefit dispersals. The Operating Fund shall be considered uninvested cash and temporary investments as defined in the Pennsylvania Probate and Fiduciaries Code ("Fiduciaries Code"), 20 Pa. C. S. A. §7315.1. As such, the Operating Fund investments will be restricted to short term fixed income instruments of the type designed for cash management assignments.<sup>1</sup> The Long Term Assets have minimal liquidity needs and shall be invested in a prudent fashion to increase their value. This Investment Policy is directed to achieving that goal with the Long Term Assets.

The investment of the CMPTF assets are subject to the restrictions of the Fiduciaries Code, 23 Pa. C. S. A. §7301 *et seq.* and this Investment Policy has been formulated consistent with those restrictions. The applicable provisions of the Fiduciaries Code as to permitted investments are incorporated herein by direct reference thereto.

The assets of the CMPTF shall be managed pursuant to the terms of the Trust Agreement between CMPTF and Pittsburgh National Bank (now PNC Bank) dated October 23, 1987 or any successor Trust Agreement. While the Consultant and the investment managers shall give the CMPTF advice with respect to the investment of Long Term Assets consistent with this policy, at all times the CMPTF assets shall be held by a custodian separate from the Consultant and the managers. Only the Executive Director or his designates employed by CMPTF or the City of Pittsburgh shall be able to effect transactions with respect to the assets of CMPTF to insure transparency and control and protection of the CMPTF assets.

The CMPTF shall employ a Consultant whose duties with respect to the implementation of this Investment Policy shall include:

- Monitoring the various investment managers' adherence to this Investment Policy.

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<sup>1</sup> See "Liquidity Policy" in Section 4.

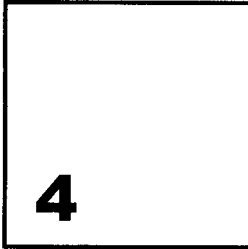
- Advising the Board of CMPTF on the continued appropriateness of the allocation to each investment option herein provided.
- Recommending to the Board of CMPTF modifications to the Investment Policy including objectives, guidelines or performance benchmarks.
- Advising the Board of CMPTF on the selection of investment managers to implement this Investment Policy.

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**STATEMENT OF INVESTMENT OBJECTIVES**

The investment objective of the CMPTF is to ensure, over the long-term life of the CMPTF, an adequate pool of assets to support the benefit obligations to participants, retirees and beneficiaries. In meeting this objective, the CMPTF's goal is to achieve an adequate return to fund the obligations in a manner consistent with a prudent level of diversification. Specifically, these objectives include the desire to:

- Invest assets in a manner such that future assets are available to fund liabilities;
- Maintain liquidity sufficient to pay current benefits when due;
- Diversify, over time, among asset classes so assets earn a reasonable return with acceptable risk of capital loss; and
- To comply with Performance standards as outlined in section 5.



## Asset Allocation Strategy

Assets included in the CMPTF should be invested according to the following asset allocation guidelines, established to reflect the growth expectations and risk tolerance of the Board.

<b>Asset Class</b>	<b>Strategic Target</b>	<b>Tactical Range</b>
<b>Equity</b>	<b>65%</b>	<b>60% - 70%</b>
Large Cap Value Equity	12%	10% - 20%
Large Cap Core Equity (Index)	6%	4% - 20%
Large Cap Growth Equity	12%	10% - 20%
Small Cap Growth Equity	5%	0% - 10%
Small Cap Value Equity	5%	0% - 10%
International Equity-Developed	15%	10% - 20%
International Equity-Emerging Markets	5%	2% - 10%
Private Equity	5%	0% - 5%
<b>Fixed Income</b>	<b>35%</b>	<b>30% - 40%</b>
Core-Plus Fixed Income	30%	0% - 40%
Cash	5%	0% - 40%
<b>Total</b>	<b>100%</b>	

The Executive Director is charged with the responsibility of monitoring the overall allocation within the parameters described above. Any permanent changes to these guidelines must be approved by the Board.

### **Rebalancing Policy**

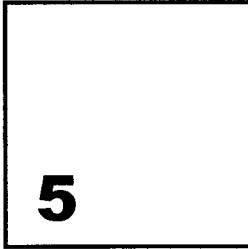
Periodic rebalancing is necessary to prevent the actual asset allocation from deviating too far from the strategic targets and to meet the high level of benefit payments. An asset allocation that is permitted to drift with market returns over extended periods of time could cause the CMPTF to be over-weighted in an asset class at market peaks and under-weighted at market lows. When market activity has been significant enough to extend beyond tactical ranges, a rebalancing policy generally results in the sale of those investments that have outperformed and the purchase of those assets that have underperformed.

In undertaking the implementation of its rebalancing policy, the Board will take into account the relationship between the actual asset allocation and the strategic targets, any transaction costs, and the CMPTF's liquidity needs. Rebalancing activities may be combined with management of the Plan's liquidity (for example, by funding benefits from an asset class whose balance exceeds its strategic target). Rebalancing may be undertaken by reallocation to the strategic targets or by partial reallocation towards the strategic targets.

The Executive Director may authorize the implementing of the rebalancing policy by maintaining asset allocations within tactical ranges.

### **Liquidity Policy**

The Executive Director is responsible for managing the cash provided to and required by the CMPTF. Cash is required to fund ongoing benefit payments and administrative expenses. Cash is provided to the CMPTF by periodic contributions and by cash flows from CMPTF investments. Cash will be monitored routinely and adjusted as necessary to ensure adequate liquidity.



## **Investment Guidelines**

### **General**

The Board is responsible for the investment of all assets and for establishing policies and practices. All investments shall be made for the purposes of providing benefits to participants and their beneficiaries and defraying the expenses related to administering the CMPTF as determined by the Board.

The Board may, at its discretion, retain investment managers to manage all or a portion of the CMPTF assets. These managers shall be selected from established and financially sound organizations which have a proven and demonstrable record in managing funds with characteristics appropriate for the risk/return profile of the CMPTF assets. The selection process will involve a disciplined approach that will be fully documented for the Board's records.

All assets should be properly diversified to reduce the potential of a single security or single sector of securities having a disproportionate impact on the portfolio.

Given the expense, difficulty of obtaining adequate diversification and ultimate size of the CMPTF commitments to various asset classes, commingled funds may be used as the vehicle for the investment in such asset classes. In such cases, the investment guidelines for the investment mandate effected by this (e.g Large-Cap Value, International Equity, etc.) will be governed by the fund's prospectus.

The following guidelines would apply to individually managed portfolios:

## **Diversification and Quality Standards**

### ***Large Cap Value Equity Investment Guidelines***

#### **ACCEPTABLE INVESTMENTS**

Equity securities shall mean common stocks or equivalents (American Depository Receipts [ADRs], Exchange Traded Funds (ETFs), convertible bonds, preferred stock). It is anticipated that the manager will invest primarily in companies considered to have large to medium capitalization levels.

#### **DIVERSIFICATION**

No more than 5% of the portfolio should be invested in any one company (valued at market). No more than the greater of 30% or 1.5 times the Russell 1000 Value Index sector weightings can be invested in any one sector. The portfolio should be invested in at least five sectors at all times. No quantitative guidelines are given as to industry diversification. However, the investment manager is expected to develop and apply prudent standards.

#### **CAPITALIZATION**

The universe of stocks for selection should reflect the capitalization profile of the manager's benchmark.

#### **CASH RESERVES**

Although the portfolio is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1 or the pooled cash fund of the custodian bank. Commingled funds meeting the above requirements are permitted.

## **Prohibited Investments and Activities**

- Options writing or purchasing
- Purchasing securities on margin
- Purchasing or selling futures or commodity contracts
- Short sales
- Leveraged derivative securities
- Foreign non-dollar denominated securities

## **Large Cap Growth Equity Investment Guidelines**

### **ACCEPTABLE INVESTMENTS**

Equity securities shall mean common stocks or equivalents (American Depository Receipts [ADRs], Exchange Traded Funds (ETFs), convertible bonds, preferred stock). It is anticipated that the manager will invest primarily in companies considered to have large to medium capitalization levels.

### **DIVERSIFICATION**

No more than 8% of the portfolio should be invested in any one company (valued at market). The maximum sector weight is the greater of 42% or 2.0 times the benchmark weight. The portfolio should be invested in at least five sectors at all times. No quantitative guidelines are given as to industry diversification. However, the investment manager is expected to develop and apply prudent standards.

### **CAPITALIZATION**

The universe of stocks for selection should reflect the capitalization profile of the manager's benchmark.

### **CASH RESERVES**

Although the portfolio is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1 or the pooled cash fund of the custodian bank. Commingled funds meeting the above requirements are permitted.

## **Prohibited Investments and Activities**

Privately placed equity (except 144a securities, which are limited to 5% of total account value)

Options writing or purchasing

Purchasing securities on margin

Purchasing or selling futures or commodity contracts

Short sales

Leveraged derivative securities

Foreign non-dollar denominated securities

## ***Large Cap Core Equity Investment Guidelines***

### **ACCEPTABLE INVESTMENTS**

This investment will be passively managed. Permissible investments are Russell 1000 index funds of Exchange Traded Funds (ETFs).

## Investment Guidelines

ACCEPTABLE INVESTMENTS	Equity securities shall mean common stocks or equivalents (American Depository Receipts [ADRs], Exchange Traded Funds (ETFs), convertible bonds, preferred stock). It is anticipated that the manager will invest primarily in companies considered to have small capitalization levels.
DIVERSIFICATION	No more than 5% of the portfolio should be invested in any one company (valued at market). The maximum sector weight is the greater of 25% or 1.5 times the benchmark weight. The portfolio should be invested in at least five sectors at all times. No quantitative guidelines are given as to industry diversification. However, the investment manager is expected to develop and apply prudent standards.
CAPITALIZATION	The average and median market capitalization of the portfolio should reflect that of the manager's benchmark.
CASH RESERVES	Although the portfolio is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1 or the pooled cash fund of the custodian bank. Commingled funds meeting the above requirements are permitted.

## Prohibited Investments and Activities

- Options writing or purchasing
- Purchasing securities on margin
- Purchasing or selling futures or commodity contracts
- Short sales
- Leveraged derivative securities

## ***Small Cap Value Equity Investment Guidelines***

### **Investment Guidelines**

ACCEPTABLE INVESTMENTS	Equity securities shall mean common stocks or equivalents (American Depository Receipts [ADRs], Exchange Traded Funds (ETFs), convertible bonds, preferred stock). It is anticipated that the manager will invest primarily in companies considered to have small capitalization levels.
DIVERSIFICATION	No more than 5% of the portfolio should be invested in any one company (valued at market). The maximum sector weight is the greater of 30% or 1.5 times the benchmark weight. The portfolio should be invested in at least five sectors at all times. No quantitative guidelines are given as to industry diversification. However, the investment manager is expected to develop and apply prudent standards.
CAPITALIZATION	The average and median market capitalization of the portfolio should reflect that of the manager's benchmark.
CASH RESERVES	Although the portfolio is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1 or the pooled cash fund of the custodian bank. Commingled funds meeting the above requirements are permitted.

### **Prohibited Investments and Activities**

- Options writing or purchasing
- Purchasing securities on margin
- Purchasing or selling futures or commodity contracts
- Short sales
- Leveraged derivative securities
- Foreign non-dollar denominated securities

## ***International Equity Investment Guidelines-Developed Countries***

ACCEPTABLE INVESTMENTS	Equity securities shall mean a broad range of international equity securities similar to those contained in the Morgan Stanley Capital International (MSCI) EAFE Index. While investment in emerging markets is permissible, it should be limited to no more than 20% of the portfolio.
DIVERSIFICATION	No more than 5% of the portfolio should be invested in any one company (valued at market). No quantitative guidelines are given as to industry or country diversification. However, the investment manager is expected to develop and apply prudent standards as to country, industry and stock selection.
CURRENCY	Currency hedging, is permitted for defensive purposes.
CASH RESERVES	Although the portfolio is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1 or the pooled cash fund of the custodian bank. Commingled funds meeting the above requirements are permitted.

### **Prohibited Investments and Activities**

- Options writing or purchasing
- Purchasing securities on margin
- Purchasing or selling commodity contracts
- Short sales
- Leveraged derivative securities

## ***International Equity Investment Guidelines-Emerging Markets***

**ACCEPTABLE INVESTMENTS** This is a non-U.S. emerging markets portfolio and holdings are expected to be invested in equity securities of companies located in countries not included in the MSCI World Index.

**DIVERSIFICATION** The account is limited to a maximum investment in any one country of the lesser of 20% of account assets at market or 400% of the country's weight in the MSCI Emerging Markets Free Index. The account's allocation to any one geographic region, as defined by Morgan Stanley Capital International, shall not exceed 200% of that region's allocation in the benchmark index, the MSCI Emerging Markets Free Index. The account's allocation to countries included in the MSCI World Index should not exceed 20% of account assets valued at market.

No more than 5% of the portfolio should be invested in any one company (valued at market). No quantitative guidelines are given as to industry or country diversification. However, the investment manager is expected to develop and apply prudent standards as to country, industry and stock selection.

**CURRENCY** Currency hedging is permitted for defensive purposes.

**CASH RESERVES** Although the portfolio is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1 or the pooled cash fund of the custodian bank. Commingled funds meeting the above requirements are permitted.

### **Prohibited Investments and Activities**

- Options writing or purchasing
- Purchasing securities on margin
- Purchasing or selling commodity contracts
- Short sales
- Leveraged derivative securities

## **Core-Plus Fixed Income Investment Guidelines**

### **ACCEPTABLE INVESTMENTS**

Fixed income securities shall mean marketable debt-type securities including obligations issued by (1) the United States Government or an Agency of the United States Government, (2) U.S. and Non-U.S. corporations (including mortgage bonds, notes and debentures, commercial paper, certificates of deposit and bankers acceptances issued by industrial, utility, finance, commercial banking or bank holding company organizations), (3) Mortgage backed (including commercial mortgage backed) and asset backed securities, (4) U.S. local, city and state governments and agencies guaranteed by U.S. local, city and state governments, (5) international agencies, supranational entities and foreign governments, denominated either in U.S. dollars or Non-U.S. currencies, (6) Repurchase Agreements. Derivative securities that are liquid instruments that are traded on major exchanges or if over-the-counter executed with major dealers and which are appropriate for the account may be purchased.

### **QUALITY**

The average quality of the total account should be A-(A3) or higher. The account's allocation to securities rated below BBB- (Baa3) is limited to 20% of the total account valued at market. The account may not hold securities rated below CCC- (Caa3). When determining the rating for a particular issue, the median rating issued for the security by the three major rating agencies (S&P, Fitch and Moody's) should be used. If only two of the agencies have rated the issue, the lower rating should apply.

The account may hold up to 15% of its assets, valued at market, in unrated securities, provided that the Investment Manager has thoroughly analyzed the credit quality of the issue and determined that it is equivalent to the ratings permitted for this account

### **DIVERSIFICATION**

Except for United States Treasury and Agency obligations, the fixed income portfolio shall contain no more than 5% exposure to any issuer.

The account may have a maximum combined allocation of 20% to the following securities:

- Non-U.S. Dollar denominated securities
- Securities rated below BBB- (Baa3)
- Bank Loans
- Emerging Market Debt

### **MATURITY/DURATION**

The weighted average maturity of the actively managed fixed income portfolio should not exceed 130% of the average maturity of the benchmark index. The weighted

average duration should range between +/- 30% of the benchmark's duration.

#### CASH RESERVES

Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1 or the pooled cash fund of the custodian bank. Commingled funds meeting the above requirements are permitted.

### **Prohibited Investments and Activities**

Privately placed debt (except 144a securities, which are limited to 15% of total account value)

Traditional real-estate other than mortgage backed instruments

Equities or equity-type securities including convertibles, and attached warrants

Lease-backs, conditional sales contracts, etc.

Purchasing securities on margin

Purchasing or selling commodity contracts

Short sales

Leveraged derivative securities, defined as securities that produce a dollar exposure greater than that of the actual dollars invested in the security.

## ***Private Equity Fund of Funds Money Manager***

### ***Investment Guidelines and Performance Objectives***

#### **Investment Guidelines**

Private Equity funds are largely unregulated investment vehicles. The Investment Adviser will, however, monitor the private equity funds against the guidelines presented below and report the results to the Committee:

ACCEPTABLE INVESTMENTS	Investments in private equity funds that have stability and proven track records.
DIVERSIFICATION	The portfolio should be constructed through a multi-manager/multi-strategy framework of diversified strategies that collectively have low volatility and low correlation to the U.S. stock market. The portfolio should hire managers whose portfolios will not all react the same in a particular market environment.
RISK	The portfolio should assess both the individual manager's strategy risk profile as well as the effect that it may have on the overall portfolio. Downside protection qualities are of importance and, accordingly, controlling risk is paramount.

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## **Performance Measurement Standards**

Performance standards are required for determining whether or not the Plan's objectives are being met. They also provide an objective basis for evaluating how well managers compliment each other and add value collectively, however it is understood that there is no guarantee that such results will be attainable.

The following are long-term investment return objectives established by the Board. While the Board believes it has a fiduciary responsibility to frequently review the results achieved by its investment managers, judgments regarding a manager's suitability will not be based solely on results in any relatively short time period. Generally three to five years of performance history is needed before results alone can play a substantial role in judging a manager. In the short run, other factors can and will be given significant consideration. These factors include, but are not limited to:

- ◆ Consistency of investment style;
- ◆ Organization and personnel stability; and
- ◆ Fundamental and statistical account risk.

The Board intends to evaluate investment manager's overall performance by taking into account all relevant objective and subjective criteria.

## Specific Performance Standards

### Total Fund

Time Horizon	Universe Benchmarks	Index Benchmarks
Rolling market cycle (approximately 3-5 years).	Total returns should rank above the median of a comparable Total Fund universe.	Net of investment management fees, the total rate of return should exceed the Benchmark Index <sup>1</sup> .
<sup>1</sup> 40% Russell 3000 Index, 20% MSCI All Country Ex US Index, 30% of the Barclays Capital Brothers Aggregate Index, 5% Citigroup 3-month T-bill index, and 5% Russell 3000 index + 2%.		

### Large Cap Value Equity

Time Horizon	Universe Benchmarks	Index Benchmarks
Rolling market cycle (approximately 3-5 years).	Total returns should rank above the median of a comparable universe of Large Cap Value Funds.	Net of investment management fees, the total rate of return should exceed the Benchmark Index <sup>1</sup> .
<sup>1</sup> Russell 1000 Value Index.		

### Large Cap Growth Equity

Time Horizon	Universe Benchmarks	Index Benchmarks
Rolling market cycle (approximately 3-5 years).	Total returns should rank above the median of a comparable universe of Large Cap Growth Funds.	Net of investment management fees, the total rate of return should exceed the Benchmark Index <sup>1</sup> .
<sup>1</sup> Russell 1000 Growth Index.		

### Large Cap Core Equity (Index)

Time Horizon	Universe Benchmarks	Index Benchmarks
Rolling market cycle (approximately 3-5 years).	Not applicable	Net of investment management fees, the total rate of return should closely track the Benchmark Index <sup>1</sup> .
<sup>1</sup> Russell 1000 Index.		

### Small Cap Growth Equity

Time Horizon	Universe Benchmarks	Index Benchmarks
Rolling market cycle (approximately 3-5 years).	Total returns should rank above the median of a comparable universe of Smid Core Funds.	Net of investment management fees, the total rate of return should exceed the Benchmark Index <sup>1</sup> .
<sup>1</sup> Russell 2500 Index.		

### Small Cap Value Equity

Time Horizon	Universe Benchmarks	Index Benchmarks
Rolling market cycle (approximately 3-5 years).	Total returns should rank above the median of a comparable universe of Small Cap Value Funds.	Net of investment management fees, the total rate of return should closely track the Benchmark Index <sup>1</sup> .
<sup>1</sup> Russell 2000 Value Index.		

### International Equity-Developed

Time Horizon	Universe Benchmarks	Index Benchmarks
Rolling market cycle (approximately 3-5 years).	Total returns should rank above the median of a comparable universe of International Equity Funds.	Net of investment management fees, the total rate of return should exceed the Benchmark Index <sup>1</sup> .
<sup>1</sup> MSCI EAFE Index net of dividends.		

### International Equity-Emerging Markets

Time Horizon	Universe Benchmarks	Index Benchmarks
Rolling market cycle (approximately 3-5 years).	Total returns should rank above the median of a comparable universe of Emerging Market Equity Funds.	Net of investment management fees, the total rate of return should closely track the Benchmark Index <sup>1</sup> .
<sup>1</sup> MSCI Emerging Markets Index.		

## Core-Plus Fixed Income

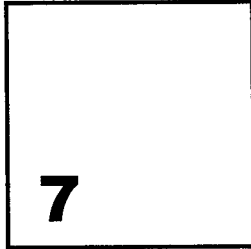
Time Horizon	Universe Benchmarks	Index Benchmarks
Rolling market cycle (approximately 3-5 years).	Total returns should rank above the median of a comparable universe of Core-Plus Fixed Income Funds.	Net of investment management fees, the total rate of return should exceed the Benchmark Index <sup>1</sup> .

<sup>1</sup> Barclays Capital Aggregate Index.

## Private Equity

Time Horizon	Universe Benchmarks	Index Benchmarks
Rolling market cycle (approximately 3-5 years).	Not applicable.	Net of investment management fees, the total rate of return should exceed the Benchmark Index <sup>1</sup> .

<sup>1</sup> Russell 3000 plus 2%.



## Administration and Control Procedures

### Review of the Investment Policy

Annually, the Board will review this Investment Policy Statement to determine its continued applicability. If, at any time, the liquidity needs of the Plan or the risk/return expectations of the Board change, the guidelines and objectives will be reassessed and restated in writing for agreement by all parties.

Approved by Scott Kunka, Executive Director, per Resolution 03-09 of the Board of Directors of the City of Pittsburgh Comprehensive Municipal Trust Fund.

A handwritten signature in black ink that reads "Scott Kunka".

\_\_\_\_\_  
Scott Kunka, Executive Director

Date: 11/17/09

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