



**COLORADO
PERA**

401(k) Voluntary Investment Program

Statement of Investment Policy

Board Approved on September 15, 2006

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Introduction

The Voluntary Investment Program (Plan) is an Internal Revenue Code Section 401(k) defined contribution plan administered by the Public Employees' Retirement Association of Colorado (Colorado PERA). It was established in 1985 to provide supplemental retirement benefits to Colorado PERA members in the State and School, Municipal, and Judicial Division Trust Funds. The Plan is a voluntary participant-directed defined contribution plan.

Since the Plan is not the sole source of retirement income for participants, their investment strategies and risk tolerances may be different from a 401(k) plan or a defined contribution plan that is the sole source. This may affect the investments the Plan provides and the investment choices that participants make.

The Plan's participants and beneficiaries are expected to have different investment objectives, time horizons and risk tolerances. To meet these varying investment needs, participants and beneficiaries will be able to direct their account balances among a range of investment categories to construct diversified portfolios that can reasonably span the risk/return spectrum. Participants and beneficiaries alone bear the risk of investment results from the funds and asset mixes that they select.

Purpose

The purpose of the investment policy is to:

- Articulate the Board of Trustees' (Trustees) investment objectives for the Plan.
- Define the roles of those responsible for the Plan's investments.
- Describe the criteria and procedures for selecting appropriate investment categories and managers.
- Describe procedures to address investment categories and funds that fail to satisfy established objectives.
- Establish objectives for monitoring and evaluating performance.

Investment Objectives

The Trustees recognize the range of investment needs represented by the Plan's participants, therefore a broad range of investment categories must be provided.

It is the objective of the Plan to provide sufficient variety among the investment categories so that participants may choose from a range of investment opportunities having different expected risks and different expected returns within a reasonably limited number of choices.

It is the objective of the Plan to provide investment funds that have investment returns comparable to returns for funds having similar objectives and risk within the particular investment categories.

It is the objective of the Plan to control management costs within reasonable and prudent levels.

Responsibilities

Plan Trustees

The Public Employees' Retirement Association of Colorado Board of Trustees (Trustees) are the trustees for the Voluntary Investment Program.

The Trustees shall be responsible for:

- The oversight of the Plan and portfolio;
- Approving changes to the Plan document;
- Approving the investment policy and amendments thereto;
- Accepting or rejecting the Investment Advisory Committee's recommendations with regards to policy, objectives and specific investment categories and funds.

Investment Advisory Committee (IAC)

The Investment Advisory Committee (IAC) shall monitor and evaluate the Plan's investment asset mix and funds, and the performance of fund managers.

The IAC consists of:

- The Director of Equity Investments
- The Director of Fixed Income Investments
- The Director of Accounting
- A Benefits Department Director
- General Counsel

Recommendations of the IAC are presented to the Chief Investment Officer and the Chief Operating Officer. Upon concurrence of the Chief Investment Officer and the Chief Operating Officer, the recommendations are presented to the Benefits Committee of the Board for its consideration.

With respect to the investment management of the Plan, the IAC is responsible for the following:

- Complying with all aspects of the Plan document, pertinent state and federal laws, regulations, and rulings that relate to the investment process;
- Designing, recommending and implementing an appropriate asset category mix, which considers changes in markets, new product availability, and participant needs and input, which are consistent with the investment objectives outlined in this statement;
- Recommending qualified funds from appropriate investment management organizations to implement the investment categories designated by the asset category mix chosen;
- Communicating annually with the Trustees on the suitability of the investments for the Plan;
- Monitoring the investment objectives, policies and actions of the investment funds and their fit to the investment categories that they implement;
- Establishing benchmarks for evaluating performance;
- Monitoring investment performance through regular reviews to assure that objectives are being met, including appropriate monitoring by an objective third party;
- Taking appropriate action if the investment fund's objectives, policies and actions are not appropriate for the investment category;
- Exercising all rights acquired through the purchase of securities, where practical;

In performance of these responsibilities, the IAC shall meet at least quarterly.

Investment Funds Managers

The investment funds managers will be responsible for the following:

- Determining the investment strategy;
- Implementing security selection and timing;
- Supplying periodic reports of investment performance results to the IAC.

Selection of Investments and Managers

Asset Allocation

An appropriate range of investment categories will be offered. The range will span the risk/return spectrum to allow participants to diversify their investments. Further, the Plan's investment funds will allow Plan participants to construct portfolios consistent with their unique individual circumstances, goals, time horizons and tolerance for risk. The investment categories selected should be able to be implemented at a reasonable cost to Colorado PERA and/or participants in terms of management, custody, and other costs and have investment characteristics that can be successfully communicated to participants. Information relative to investment categories and their characteristics will be communicated to participants and potential participants.

The investment categories to be offered are shown in Appendix A.

The investment categories selected should be monitored quarterly and formally reviewed annually by the IAC for any possible additions and/or deletions. If the IAC deems it appropriate to recommend termination of an investment category, an alternative investment category should be considered. Communication should be provided to participants regarding the relevant characteristics of the investment category and the impact of the termination of the investment category on potential diversification.

In the event of a termination of an investment category, participants will be provided a transition period of one or two quarters to reallocate their accounts among available investment categories. If a participant does not reallocate out of a terminated investment category by the end of the transition period, those assets will be reallocated to the lowest expected-risk investment category as determined by the IAC.

Criteria for Selection of Investment Fund

After determining the investment categories to be used, the IAC must evaluate investment funds to meet the specific investment characteristics of each investment category.

Because of their liquidity and cost efficiency, pooled investment funds are used primarily as the investment vehicles for Plan assets. These funds may include mutual funds, bank commingled funds, and insurance company separate accounts or any other investment vehicle approved by the Trustees, which may include funds managed by Colorado PERA staff.

Each investment fund should meet the following criteria at the time of selection and continue to fulfill the criteria during retention. Failure to maintain the criteria below may qualify the fund for termination. Internally managed funds may be created that do not meet some of the criteria below. Investment funds must:

- Fulfill one of the investment categories that have been defined for the Plan;

- For actively managed investment funds, have absolute and risk-adjusted performance equal to or greater than the median return for an appropriate, style-specific benchmark and peer group over a specified time period;
- For indexed investment funds, have gross of fees performance equal to the individual fund's benchmark over a specified time period;
- Have a reasonable tenure for the fund and management team to ensure that its past performance is attributed to the particular manager or management team;
- Have an investment strategy and supporting investment process likely to achieve investment results expected for the investment category it will implement;
- Have competitive fees compared to similar investments;
- Be able to provide to Colorado PERA all performance, holding, and other relevant information in a timely fashion;
- Operate in good standing with regulators and clients, with no material pending or adversely concluded legal actions;
- Provide detailed information on the history of the firm's investment philosophy;
- Provide detailed information on the firm's approach, its principals, clients, locations, fee schedules, and other relevant information;
- Have at least \$500 million in assets under management;
- Maintain appropriate investment diversification;
- Have management and/or oversight by an investment adviser registered with the SEC or by a bank or insurance company with appropriate investment powers.

Criteria for Termination of Investment Fund

An investment fund may be recommended for termination when the IAC has lost confidence in the fund and its management's ability to:

- Achieve performance and risk objectives;
- Comply with investment guidelines;
- Comply with reporting requirements;
- Maintain a stable organization and retain key relevant investment professionals.

Any recommendation to terminate an investment manager will be treated on an individual basis, and need not be made based solely on quantitative data.

A fund to be terminated shall be handled using one of the following approaches:

- Be removed and replaced with an alternative fund;
- Be frozen with existing assets managed by the terminated fund with new assets directed to a replacement fund;
- Be phased out over a specific time period;

- Be removed without providing a replacement fund if other funds in the same category are available.

Evaluation and Review

Investment Policy

The IAC shall review the investment policy annually to determine if amendments are appropriate based on changed circumstances such as the market environment or the Plan.

Investment Categories

The IAC shall review annually the investment categories provided by the Plan for appropriateness in light of participant needs and the current market environment.

Investment Funds

Each investment fund is expected to achieve the performance and investment objectives specified by the IAC and will be reviewed on a quarterly basis. From time to time, the fund(s) may not achieve one or more of these objectives, but will be expected to achieve them over the long-term. Long-term is typically defined as a market cycle, or three to five year period.

Periodic monitoring of the investment funds should utilize the same criteria that were used for the selection of the fund. At a minimum, the evaluation of the investment and performance objectives should include the following comparisons:

- Evaluation of relative performance by comparison with an appropriate style-specific benchmark for the last one quarter, year-to-date, one year, three years, five years, and ten years or the history of the investment fund;
- For actively managed investment funds, evaluation of relative performance by comparison with the performance of funds with similar investment objectives for the last one quarter, year-to-date, one year, three years, five years, and ten years or the history of the investment fund;
- Measures of specific risk and risk-adjusted return within a reasonable range relative to an appropriate, style-specific benchmark and peer group for the last one quarter, year-to-date, one year, three years, five years, and ten years or the history of the investment fund;
- Analysis of investment objectives, policies and actions for consistency with the investment category and consistency over time;
- Review of the investment process including any personnel changes;
- Review of management fees and other expenses compared with similar funds.

Parties not involved in the management of any of the investment funds should provide the evaluation of performance.

Definitions

Benchmark – A market index or blend of market indices that are selected to serve as the performance measurement criterion for an investment fund.

Investment Category – Any asset class (examples: domestic fixed income, international equity) or style within an asset class (examples: domestic equity value or growth).

Investment Fund – One of the individual investment options that may be chosen by a participant.

Participant – An employee or former employee of the State and School, Municipal, and Judicial Division Trust Funds who has an account in the Voluntary Investment Program.

Plan – The Voluntary Investment Program (Plan) administered by the Public Employees' Retirement Association of Colorado and established by the State of Colorado Legislature in 1985.

Appendix A - Current Investment Categories

Short-Term Investment Category

The Short-Term Investment Category provides competitive, short-term investment returns while maintaining very stable principal values. Typically, maturities are from overnight to 12 months.

Short-Term Bond Category

The Short-Term Bond Category provides the potential for additional return beyond that achieved by the Short-Term Investment Category with some incremental risk. Investments should typically have maturities from one year to four years. Duration is expected to be within a range of +/- 0.5 years of the Merrill Lynch 1-3 Year Treasury Index.

Long-Term Bond Category

The Long-Term Bond Category provides participation in the fixed income markets. The fixed income market provides income and capital appreciation/depreciation returns with interest rate and credit risks. Investments should typically have maturities of five years or longer. Duration is expected to be within a range of +/- 1.5 years of the Lehman Brothers Aggregate Bond Index.

Growth Domestic Equity Category

The Growth Domestic Equity Category seeks to provide capital appreciation with stock portfolios that have a very low dividend yield and which have higher than average valuation characteristics.

Value Domestic Equity Category

The Value Domestic Equity Category seeks to provide capital appreciation with stock portfolios which have a higher emphasis on dividend yield and which have lower than average valuation characteristics.

Core Domestic Equity Category

The Core Domestic Equity Category seeks to provide capital appreciation with stock portfolios that have an average dividend yield and a blend of growth and value styles.

Opportunistic Equity Category

The Opportunistic Equity Category seeks to provide capital appreciation with stock portfolios that have the flexibility of selecting domestic or non-U.S. stocks, growth and/or value stocks, and large, mid, or small capitalization securities.

Core Small-Cap Domestic Equity Category

The Core Small-Cap Domestic Equity Category seeks to provide capital appreciation with stock portfolios that have an average dividend yield and a blend of growth and value styles as compared to the MSCI U.S. Small Cap 1750 Index.

Balanced Category

The Balanced Category provides a blended return/risk profile between bonds and stocks and limited active asset allocation.

International Stock Category

The International Stock Category seeks to provide the return, risk, and diversification available from investing in a diversified portfolio of the stocks of non-U.S. companies.

Asset Allocation or Lifestyle Category

The Asset Allocation or Lifestyle Category is designed for investors who do not wish to actively manage their portfolios. Lifestyle funds seek to achieve long-term growth over a specified time period by adjusting assets among stocks, bonds, and money market instruments or by investing in different kinds of mutual funds.

Appendix B - Current Investment Funds

The investment funds presently selected to implement the available investment categories are the following:

Short-Term Investment Category

Northern Trust Short Term Fund

Short-Term Bond Category

PIMCO Low Duration Fund

Long-Term Bond Category

PIMCO Total Return Fund

Growth Domestic Equity Category

GMO Growth Fund

Value Domestic Equity Category

Dodge & Cox Stock Fund

Core Domestic Equity Category

Fidelity Contrafund

PERA Growth & Income Stock Fund

Vanguard S&P 500 Index

Core Small-Cap Domestic Equity Category

Vanguard Small-Cap Index Fund

Balanced Category

Dodge & Cox Balanced Fund

International Stock Category

EuroPacific Growth Fund

Asset Allocation or Lifestyle Category

Fidelity Freedom Funds