

Fee Procedures

INTRO

The purpose of this document is to establish guidelines for the negotiation and structuring of investment management fees paid by the San Jose Police and Fire Department Retirement Plan, San Jose Federated Employees' Retirement Plan, and associated trusts, (collectively referred to as the "Investment Program"), as managed by the Office of Retirement Services ("ORS"). Additionally, this document will outline a framework for the evaluation of investment management fees paid by the Investment Program.

The Investment Program relies on external investment managers to manage all or part of the Program's assets. The fees paid to these managers are reported to the Boards of Administration of each plan annually, as governed by each plan's Investment Policy Statement ("IPS"). The IPS further directs the Plans to monitor, control, and whenever possible negotiate investment costs. These fee procedures provide additional detail around those directives to ORS.

GOALS

ORS evaluates strategies on the basis of their risk adjusted returns, net of fees. ORS will structure investment management fees to meet the following objectives.

Minimize total fees paid over a full economic cycle

Annual investment management fees may fluctuate over an economic cycle as performance related costs rise with outperformance, and fall during years of underperformance. Fees, like returns, are ideally evaluated over a long horizon to even out the effects of performance related fluctuations.

Investment management fees should be analyzed both at the strategy and program level, for differing purposes. Fee analysis is an important component of the due diligence process, and strategies should be evaluated for appropriateness of structure, market-level pricing, and proper alignment of interests. At the program level, ORS will monitor fees as asset allocations and strategy mixes shift through an economic cycle.

Maximize alignment of economic interests with investment managers

Although external managers have a fiduciary duty to the Investment Program, certain fee structures can directly incentivize external managers to act in the best interests of the Investment Program. ORS will seek to customize fee agreements where possible to include a symmetrical performance related incentive for managers.

Maximize transparency from managers

A transparent detailing of costs from managers helps detect any relabeling of fees as fund expenses. Any evaluation of the "costs" of a strategy should include fund expenses.

Maximize the efficiency of fees spent.

Efficient use of fee dollars will be an ongoing concern: paying market prices for strategies, paying for alpha vs. beta, and finding ways to minimize fees should strategies underperform.

Maximize transparency to stakeholders.

Detailing investment management fees to stakeholders will aid ORS in explaining the performance of the Investment Program.

TOOLS

ORS will use different levers over an economic cycle to meet the Plan's objective of paying benefits to its members. Fees are both an outcome of and an input into this process. There are several different levels of decisions that can affect investment management fee burdens:

Program: Asset Allocation

Fees are largely an outcome of asset allocation and performance. The Investment Program adopts a Strategic Asset Allocation based on capital market assumptions using returns net of fees, making fees a byproduct of the more fundamental asset allocation decision.

Asset Class: Active vs. Passive

Within an asset class, ORS may determine whether active or passive strategies are more appropriate. Fees are an integral component of this decision.

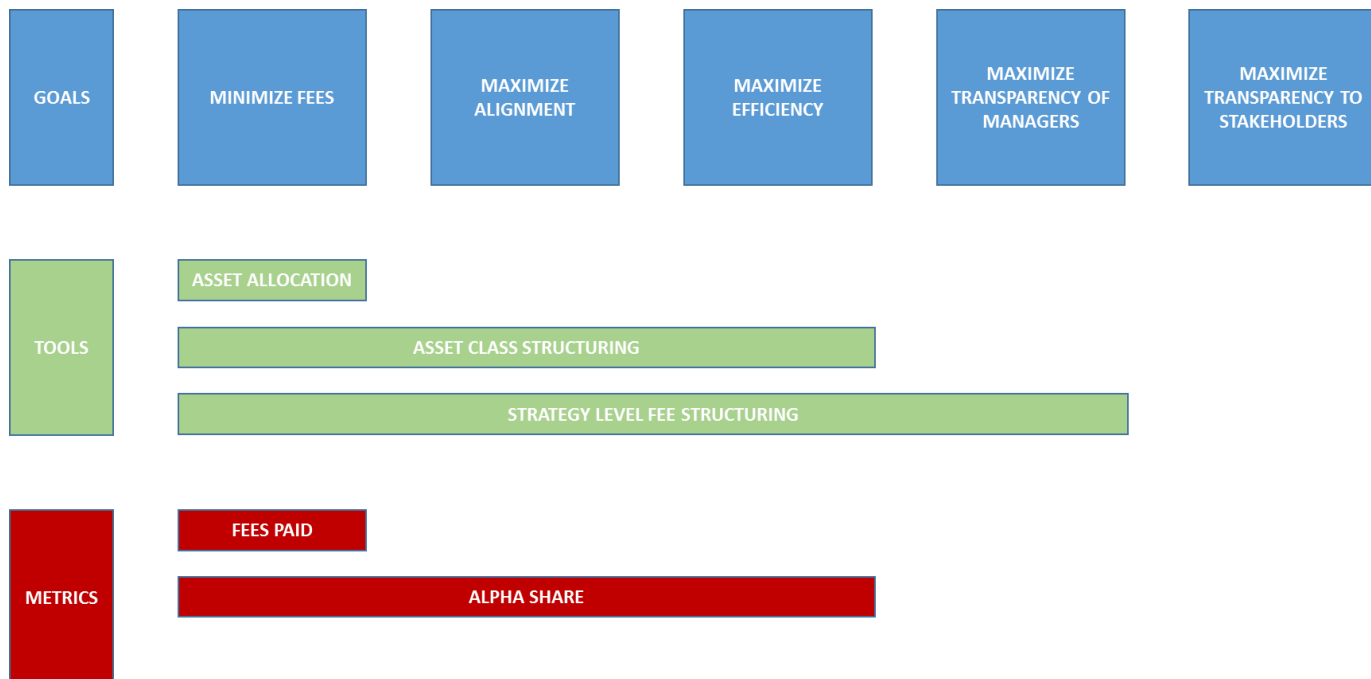
Additionally, ORS acknowledges that in many cases, the Investment Program does not have the scale or market power to be a price setter in fee negotiations, but there are scenarios in which ORS can create favorable fee dynamics, including seeding new strategies, aggregating multiple strategies with one manager, etc.

Strategy: Fixed vs. Performance-based

A given strategy may be offered on a fixed fee basis, or with a fee structure that includes a performance component. ORS may determine which structure is more appropriate for a given strategy, with a strong preference for including performance related components in the interests of promoting direct economic alignment with external managers.

EVALUATION

ORS will evaluate fees at each level of the aforementioned levels of decision making process. At the Strategy level, metrics such as alpha share, return per unit of fees, and overall costs paid can be used to determine the propriety of a fee structure, as part of a comprehensive review of the strategy. At the Asset Class level, the same metrics can be used as a component of the evaluation of an asset class' structure. Finally, at the Program level, alpha share along with additional benchmarks including the cost of alternative asset allocations can be used in the evaluation of allocation options.



CONCLUSIONS

Fee transparency should aid stakeholders seeking to hold ORS accountable for meeting program objectives. ORS anticipates that the Investment Program's emphasis on alignment of interests and transparency on fees may lead to a greater understanding of how fees are generated, at the potential cost of losing top-tier managers due to inability to agree on fee terms. Finally, fee management is only one component of the overall success of the Investment Program, irrespective of the outsized scrutiny fees receive.