

STATEMENT OF INVESTMENT GUIDELINES
FOR
PHILADELPHIA GAS WORKS PENSION PLAN

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I. INTRODUCTION

This Statement of Investment Guidelines (Guidelines) defines the investment policies, objectives, and procedures applicable to the Philadelphia Gas Works Pension Plan (Fund). It was developed by Gallagher Fiduciary Advisors, LLC (Consultant), in conjunction with the Sinking Fund Commission (Commission) and the Fund.

Experience has shown that the most common and costly error of a fund sponsor is the failure to communicate return expectations, risk tolerances, time horizons, and liquidity needs to the investment managers.

Developing appropriate investment strategies and executing prudent decisions requires a thorough understanding of the Fund's investment objectives. Therefore, it is critical to document these investment preferences. Only through this exercise can the Commission adequately interpret investment activity and results.

The purpose of the Guidelines is threefold. First, it will constitute the program for investing the Fund's assets. Second, it will serve as a communication tool between the Commission and the investment managers. Third, it will provide a framework to measure the ongoing performance of the assets.

Within the constraints imposed by the Guidelines, the investment managers will have total discretion to manage the Fund's assets according to their professional judgment and fiduciary obligations. Their strategies should be communicated to the Commission at regularly scheduled review meetings. By assuming the management of any of the Fund's assets, an investment manager is obligated to manage the assets in accordance with the Guidelines and its contract with the City of Philadelphia acting through the Commission, which contract incorporates by reference the Guidelines.

A. Goals

The long-term goals of the Fund are to:

1. Manage the assets in a manner that is in the best interest of the participants and beneficiaries of the Fund;
2. Produce investment results which meet the Fund's actuarially assumed rate of return and protect the assets from any erosion of inflation-adjusted value. In addition, the investment managers should prudently invest the assets within the constraints imposed by the Guidelines to enhance value whenever possible; and
3. Produce consistent performance to protect against excessive volatility in the market value from year to year to be able to meet the liquidity needs of the Fund.

B. Liquidity Needs

The Fund should be managed in accordance with its cash flow requirements, as prescribed by applicable law and as discussed in Section II below. The appropriate PGW personnel should communicate the cash flow needs to the Commission's Executive Director and the Fund's Chief Investment Officer (CIO). The CIO, with the support of the Consultant, should then establish the actual distributions of the cash flows (consistent with the long-term asset allocation of the Fund) and communicate such to the investment managers. Furthermore, the distributions of cash flows should consider periodic rebalancing needs due to changes in market valuations of the asset classes.

C. Time Horizon

Progress toward stated goals will be measured regularly, however, the Commission recognizes that the investment managers may require a market cycle (at least three years) to fully implement their investment styles. Under certain circumstances, such as change or loss of key personnel, short-term poor performance history, change of investment style, or pursuant to the Commission's sole discretion, the Commission may choose to consider replacing an investment manager within a three-year time horizon.

D. Investment Style

Each investment manager is directed to implement an investment style consistent with the respective asset class for which they were retained. The Commission will periodically evaluate each manager's investment style to ensure consistency with their mandate. The Commission may consider replacing a manager if it is determined that its investment style is no longer appropriate for the Fund.

E. Investment Discretion

The Commission intends to control such matters as the long-term asset mix and the retention of professional investment managers. However, detailed investment strategies and the ultimate purchases and sales of securities are deemed to be within the expertise and discretion of the professional investment advisors. The Commission is aware that the decision to invest in a commingled account may relieve the investment manager from strict adherence to all elements of the policy. The investment managers do not have the authority to invest in commingled funds without the prior express written permission of the Commission.

II. BACKGROUND

The Commission was initially established to handle all debt servicing of the City of Philadelphia. An ordinance passed by City Council in 1966 delegated management of the Fund to the Commission. The purpose of the Fund is to help meet pension liabilities for the employees of the Philadelphia Gas Works, which pays benefits from a combination of draws from the Fund and current gas revenues.

III. RECOMMENDED ASSET ALLOCATION AND DIVERSIFICATION POLICY

Historical performance results and future expectations suggest that common stocks will provide higher total investment returns than fixed-income securities over a long-term investment horizon. However, one can expect an increase in portfolio volatility as the allocation percentage to equities is increased.

Based on the investment goals and risk tolerances stated in this document, given an overall 65% equity / 35% fixed income structure for the Fund, the following asset mix strategies are appropriate. Investments should not exceed the stated minimum and/or maximum levels (at market value) without written permission of the Commission.

Asset Allocation

| Asset Class | Target | Range | | |
|---------------------|--------|-------|---|------|
| | | Min. | | Max. |
| Combined PGWPP Fund | | | | |
| Equity | 65% | 60% | - | 70% |
| Fixed Income | 35% | 30% | - | 40% |
| Cash Equivalents | 0% | 0% | - | 10% |
| TOTAL | 100% | | | |

Diversification

It is the goal of the Fund to be well diversified. Diversification reduces the risk to the Fund while maintaining the return potential. Consistent with this goal, the equity and fixed-income portfolios will be diversified as follows (percentages based on TOTAL EQUITY + TOTAL FIXED INCOME = 100%):

| Asset Class | Target | Range | | |
|----------------------------|--------|--------|---|--------|
| | | Min. | | Max. |
| Equity | | | | |
| Large-Cap Equity (+/- 10%) | 41.00% | 36.90% | - | 45.10% |
| Small Cap (+/- 20%) | 9.00% | 7.20% | - | 10.80% |
| International (+/- 20%) | 15.00% | 12.00% | - | 18.00% |

| Asset Class | Target | Range | | |
|-----------------------------|---------|--------|---|--------|
| | | Min. | | Max. |
| Fixed Income | | | | |
| Core Plus (+/- 20%) | 16.50% | 13.20% | - | 19.80% |
| Intermediate Plus (+/- 20%) | 18.50% | 14.80% | - | 22.20% |
| TOTAL FUND | 100.00% | | | |

IV. INVESTMENT GUIDELINES AND DEFINITIONS

Deviations from this Section are prohibited unless specifically approved in advance in writing by the Commission. The Commission may instruct managers to liquidate prohibited investments. Managers shall be liable to the Fund for realized losses in prohibited investments.

A. Types of Securities

1. Domestic Equity includes:

- (a) Trust units in commingled investment pools.
- (b) Shares in mutual funds.
- (c) Separate accounts consisting of:
 - (i) High-quality U.S. common stocks.
 - (ii) High-quality U.S. dollar-denominated common stocks of non-U.S. domiciled companies which stocks are traded on a U.S. securities exchange.
 - (iii) American Depositary Receipts (ADRs) of non-U.S. domiciled companies which ADRs are traded on a U.S. securities exchange.
 - (iv) Rights and warrants associated with any of the foregoing securities.
 - (v) Shares or creation units of long-only, unlevered Exchange-Traded Funds (ETFs) traded on a registered securities exchange, which are based on an index of, or basket of, stocks representative of the Manager's mandate or a subset of the mandate. Examples include HOLDRs (Holding Company Depositary Receipts), iShares, Qubes (ticker QQQ, tracks Nasdaq 100), SPDRs (Standard & Poor's Depositary Receipts) and VIPERs (Vanguard Index Participation Receipts).
 - (vi) Convertible bonds, convertible preferred stocks, preferred stocks and non-voting stocks if the risk/return characteristics are favorable versus the

underlying common equity. Convertible bonds will be considered to be equity investments.

2. Fixed-Income includes:

- (a) Trust units in commingled investment pools.
- (b) Shares in mutual funds.
- (c) Separate accounts consisting of:
 - (i) Marketable debt issues:
 - By U.S. Treasury or Agencies.
 - By U.S. corporations.
 - By U.S. banks or other financial institutions.
 - U.S. mortgage-backed or asset-backed securities.
 - U.S. taxable state and municipal securities.
 - Yankee bonds.
 - U.S. dollar-denominated non-U.S. debt.
 - (ii) Shares or creation units of long-only, unlevered Exchange-Traded Funds (ETFs) traded on a registered securities exchange, which are based on an index of, or basket of, fixed income securities representative of the Manager's mandate or a subset of the mandate. Examples include iShares index funds.

3. Cash Equivalents include:

- (a) U.S. Treasury Bills.
- (b) U.S. Government repurchase agreements (with a minimum of 102% collateral).
- (c) Money market funds.
- (d) Commercial paper.
- (e) Shares or creation units of long-only, unlevered Exchange-Traded Funds (ETFs) traded on a registered securities exchange, which are based on an index of, or basket of, U.S. Treasury Bills. Examples include SPDR T-Bill ETFs.

4. International Equity includes:

- (a) Trust units in commingled investment pools.
- (b) Shares in mutual funds.
- (c) Separate accounts consisting of:
 - (i) Common stock listed on a registered securities exchange.
 - (ii) Over-the-counter (OTC) common stock.
 - (iii) American Depositary Receipts (ADRs).
 - (iv) European Depositary Receipts (EDRs).
 - (v) Global Depositary Receipts (GDRs).
 - (vi) Shares or creation units of long-only, unlevered Exchange-Traded Funds (ETFs) traded on a registered securities exchange, which are based on an index of, or basket of, stocks representative of the Manager's mandate or a subset of the mandate. Examples include iShares MSCI index funds and SPDRs region and country funds.
 - (vii) Convertible bonds, preferred stocks, and non-voting stock if the risk/return characteristics are favorable versus the underlying common equity.
 - (viii) Currency hedging.
- 5. Covered Call Options are permissible in separate accounts when the account holds the underlying security and an equivalent option position is sold to obtain additional income.
- 6. Futures, and Options other than Covered Call Options, are permissible in separate accounts for duration and currency hedging purposes only, with prior express written approval of the Commission.

Futures and options may not be used for speculative purposes. The notional value of all future and option contracts is limited to 20% of the underlying market value of the portfolio and under no circumstances is leverage permitted. The counterparty exposure (the total notional value of contracts with any one counterparty which are not subject to two-way collateral agreements) is limited to 5% of the portfolio. Counterparty credit ratings must be rated at least "A" by Standard & Poor's, Moody's or Fitch.

B. Diversification

Each separate account investment manager must diversify the investment of its allocation to minimize the impact of substantial loss in any specific sector or company.

Domestic Equity -- For each manager's allocation:

- No more than the greater of 20% or three times the applicable benchmark index sector weighting may be invested in any one market sector valued at market, subject to a maximum 45% weighting in any one market sector valued at market.
- No more than 10% valued at market may be invested in any one company.
- No more than 10% valued at market may be invested in any combination of U.S. dollar-denominated common stocks or American Depositary Receipts (ADRs) of non-U.S. domiciled companies which stocks or ADRs are traded on a U.S. securities exchange.

International Equity -- For each manager's allocation:

- No more than 20% valued at market may be invested in emerging market securities.
- No more than 10% valued at market may be invested in any one company.

Fixed Income -- Each investment manager must diversify the investment of its allocation, within the quality guidelines in Section IV.C. and the duration guidelines in Section IV.D, to minimize the adverse effects of interest rate fluctuations. Therefore, each manager's allocation is subject to the following limitations:

- Except for U.S. Treasury and Agency obligations, no more than 5% valued at market of a given issuer.
- Valued at market, no more than 20% in U.S. dollar-denominated investment grade non-U.S. debt, excluding Yankee bonds.
- Valued at market, no more than 25% in domestic asset-backed securities.
- Valued at market, no more than 15% in commercial mortgage-backed securities.
- Valued at market, no more than 15 percentage points above the benchmark in mortgage-backed securities. (Portfolio exposure should include all agency and non-agency securities.)
- Valued at market, no more than 15% in non-agency collateralized mortgage obligations.
- Valued at market, no more than 15% in non-agency residential mortgage-backed securities.

C. Quality (for Separate Account Managers)

1. Equity Issues

- a. There are no qualitative guidelines suggested with regard to domestic equity ratings, rankings, etc., except that prudent standards should be utilized by the investment managers.

- b. Convertible bonds (permitted as described in Section IV. A.) will be considered to be equity investments and must be rated investment grade by Moody's (Baa3 or better), Standard & Poor's (BBB- or better) or Fitch (BBB- or better) and not rated below investment grade by any of Moody's, Standard & Poor's or Fitch (i.e., no split ratings are permitted).
- c. Specific constraints include the avoidance of restricted issues which have limited marketability, excluding SEC Rule 144A securities. SEC Rule 144A securities considered by the investment manager to be within the policy guidelines are permitted up to a maximum of 15% of each manager's allocation.

2. Fixed-Income Securities

- a. Domestic bonds must be rated investment grade: (1) by at least two of Moody's (Baa3 or better), Standard & Poor's (BBB- or better) or Fitch (BBB- or better) if the securities are rated by all three agencies; (2) by both agencies if the securities are rated by two of such agencies; and (3) by the agency if the securities are rated by only one of such agencies. Securities which were investment grade at time of purchase and subsequently are downgraded in a manner that they no longer qualify for investment grade status must be disposed of in a prudent manner, unless the Commission or its authorized representative consents, upon recommendation of the manager, to retaining the security in the account.
- b. Non-U.S. securities must be rated Aa3 or better by Moody's, AA- or better by Standard & Poor's and AA- or better by Fitch, on the following conditions: (1) by at least two of such agencies if the securities are rated by all three agencies; (2) by both agencies if the securities are rated by two of such agencies; and (3) by the agency if the securities are rated by only one of such agencies. Non-U.S. securities which met credit quality standards at time of purchase and are subsequently downgraded in a manner that they no longer qualify for investment must be disposed of in a prudent manner, unless the Commission or its authorized representative consents, upon recommendation of the manager, to retaining the security in the account.
- c. Specific constraints include the avoidance of restricted issues which have limited marketability, excluding SEC Rule 144A securities. SEC Rule 144A securities considered by the investment manager to be within the policy guidelines are permitted up to a maximum of 15% of each manager's allocation.
- d. Notwithstanding the credit quality requirements of Paragraphs IV.C.2.a. and b., each Core Plus and Intermediate Plus Fixed Income manager may invest a maximum of 10% of its allocation, valued at market, in any combination of domestic bonds and U. S. dollar-denominated non-U. S. debt securities where the credit rating is below investment grade (less than BBB-). Securities where the credit rating is B- or below are prohibited at the time of purchase. Credit ratings for below investment grade domestic bonds and U. S. dollar-denominated non-U. S. debt securities are determined as follows:(1):by at least two of Moody's, Standard & Poor's and Fitch if the securities are rated by all three agencies;

(2) by both agencies if the securities are rated by two of such agencies; and (3) by the agency if the securities are rated by only one of such agencies. Domestic high-yield securities which met credit quality standards at time of purchase and are subsequently downgraded in a manner that they no longer qualify for investment must be disposed of in a prudent manner, unless the Commission or its authorized representative consents, upon recommendation of the manager, to retaining the security in the account.

- e. The average market-weighted quality of each manager's allocation exclusive of the provision for below investment grade domestic bonds and U. S. dollar-denominated non-U. S. debt securities in Paragraph IV.C.2.d., should be no less than 3.0, based on the following scale:

| | |
|------------------------------|-----|
| U.S. Government and Agencies | 5.0 |
| Aaa/AAA Bonds | 4.0 |
| Aa/AA Bonds | 3.0 |
| A/A Bonds | 2.0 |
| Baa/BBB Bonds | 1.0 |

3. Cash Equivalent Vehicles -- If commercial paper is used for short-term investments, it must be of high quality, rated at least A-1 by Standard & Poor's or P-1 by Moody's.

D. Duration (for Separate Account Managers)

The maturities of the bonds held in each manager's allocation are at the discretion of the investment manager. However, overall effective duration should be maintained within 80% - 120% of the applicable bond index.

E. Prohibited Investments (for Separate Account Managers)

Investment in publicly traded U.S. companies engaged in business activities in Northern Ireland which have not implemented the MacBride Principles. Investment in the following categories of securities are prohibited without the prior express written approval of the Commission:

1. Except for International Equity managers: (a) Equity securities which are not U.S. dollar-denominated, (b) equity securities in non-U.S. domiciled companies not traded on a U.S. securities exchange; (c) European Depository Receipts (EDRs); (d) Global Depository Receipts (GDRs); (e) currency hedging.
2. Private placements -- except for SEC Rule 144A securities.
3. Restricted domestic stock.
4. Options and futures -- except for duration and currency hedging purposes with prior express written Commission approval and covered call options.
5. Commodities.
6. Non-U.S. dollar-denominated fixed income securities.
7. Interest Only (IO) Collateralized Mortgage Obligations (CMOs).

8. Principal Only (PO) CMOs.
9. Z-Tranch CMOs.
10. Structured notes.
11. Floater/Inverse Floater derivative debt securities.
12. Margin trading and leverage.
13. Short selling, including ETFs representing short positions.
14. Collective trusts, except for ETFs as otherwise permitted.
15. Mutual funds including commingled and pooled funds, whether closed-end or open-end, except for open-end ETFs as otherwise permitted.
16. Exchange-traded notes.
17. Oil, gas or natural resource properties.
18. Direct real estate investments.
19. Venture capital.
20. Limited Partnerships.

Investment in any security which these Guidelines do not specifically allow or prohibit must first be approved in writing by the Commission.

V. OBJECTIVES

Investment objectives are intended to provide quantifiable benchmarks against which the progress toward long-range investment goals can be measured. The objectives are measured gross of fees over a trailing three-year time horizon. In the case where three years of data does not exist, composite returns of an investment management organization will be used to determine compliance. On an individual investment firm basis, if two of the three objectives are not met, the Commission may consider replacing such firm. Identification of the Indices and Universes used throughout this section are listed in the Appendix.

A. Combined PGWPP Fund

Relative to appropriate indices:

| <u>Section</u> | <u>Index</u> | <u>Objective</u> |
|---------------------|----------------------------|------------------|
| Combined PGWPP Fund | TMI (Target Market Index)* | Exceed by 0.60% |
| Combined PGWPP Fund | Actuarial Rate | Exceed |

Combined PGWPP Fund CPI (Consumer Price Index) Exceed by 5.00%

* 41.00% Large Cap Domestic Equity / 9.00% Small Cap Domestic Equity / 15.00%
International Equity / 35% Diversified Fixed Income

Relative to professionally managed accounts:

| <u>Section</u> | <u>GRID® Universe</u> | <u>Objective</u> |
|---------------------|-----------------------|------------------|
| Combined PGWPP Fund | High Equity Balanced | Top 50% |

Risk (standard deviation) relative to other professionally managed accounts:

| <u>Section</u> | <u>GRID® Universe</u> | <u>Objective</u> |
|---------------------|-----------------------|------------------|
| Combined PGWPP Fund | High Equity Balanced | Bottom 50% |

B. Large-Cap Equity

1. Large Cap Growth Equity

Relative to appropriate indices:

| <u>Section</u> | <u>Index</u> | <u>Objective</u> |
|----------------|----------------------|------------------|
| Each Manager | Russell 1000 Growth® | Exceed by 0.80% |

Relative to other professionally managed accounts:

| <u>Section</u> | <u>GRID® Universe</u> | <u>Objective</u> |
|----------------|-----------------------|------------------|
| Each Manager | Growth Equity | Top 50% |

Risk (standard deviation) relative to other professionally managed accounts:

| <u>Section</u> | <u>Index</u> | <u>Objective</u> |
|----------------|-------------------------------------|------------------|
| Each Manager | Russell 1000 Growth® Down Market | Exceed |

2. Large Cap Core Equity

Relative to appropriate indices:

| <u>Section</u> | <u>Index</u> | <u>Objective</u> |
|----------------|--------------|------------------|
| Each Manager | S&P 500 | Exceed by 0.80% |

Relative to other managed accounts:

| <u>Section</u> | <u>GRID® Universe</u> | <u>Objective</u> |
|----------------|-----------------------|------------------|
| Each Manager | Equity | Top 50% |

Risk (standard deviation) relative to other professionally managed accounts:

| <u>Section</u> | <u>Index</u> | <u>Objective</u> |
|----------------|---------------------|------------------|
| Each Manager | S&P 500 Down Market | Exceed |

3. Large Cap Value Equity

Relative to appropriate indices:

| <u>Section</u> | <u>Index</u> | <u>Objective</u> |
|----------------|---------------------|------------------|
| Each Manager | Russell 1000 Value® | Exceed by 0.80% |

Relative to other professionally managed accounts:

| <u>Section</u> | <u>GRID® Universe</u> | <u>Objective</u> |
|----------------|-----------------------|------------------|
| Each Manager | Value Equity | Top 50% |

Risk (standard deviation) relative to other professionally managed accounts:

| <u>Section</u> | <u>Index</u> | <u>Objective</u> |
|----------------|------------------------------------|------------------|
| Each Manager | Russell 1000 Value® Down Market | Exceed |

C. Small-Cap Equity

Relative to appropriate indices:

| <u>Section</u> | <u>Index</u> | <u>Objective</u> |
|----------------|----------------------|------------------|
| Growth Manager | Russell 2000 Growth® | Exceed by 0.90% |
| Core Manager | Russell 2000® | Exceed by 0.90% |
| Value Manager | Russell 2000 Value® | Exceed by 0.90% |

Relative to other professionally managed accounts:

| <u>Section</u> | <u>GRID® Universe</u> | <u>Objective</u> |
|----------------|-------------------------|------------------|
| Growth Manager | Small-Cap Growth Equity | Top 50% |
| Core Manager | Small-Cap Equity | Top 50% |
| Value Manager | Small-Cap Value Equity | Top 50% |

Risk (standard deviation) relative to other professionally managed accounts:

| <u>Section</u> | <u>Index</u> | <u>Objective</u> |
|----------------|-------------------------------------|------------------|
| Growth Manager | Russell 2000 Growth® Down Market | Exceed |
| Core Manager | Russell 2000® Down Market | Exceed |
| Value Manager | Russell 2000 Value® Down Market | Exceed |

D. International Equity

Relative to appropriate indices:

| <u>Section</u> | <u>Index</u> | <u>Objective</u> |
|----------------|--------------|------------------|
| Each Manager | MSCI EAFE | Exceed by 1.00% |

Relative to other professionally managed accounts:

| <u>Section</u> | <u>GRID® Universe</u> | <u>Objective</u> |
|----------------|-----------------------|------------------|
| Each Manager | International Equity | Top 50% |

Risk (standard deviation) relative to other professionally managed accounts:

| <u>Section</u> | <u>Index</u> | <u>Objective</u> |
|----------------|-----------------------|------------------|
| Each Manager | MSCI EAFE Down Market | Exceed |

E. International Equity - Emerging Markets

Relative to appropriate indices:

| <u>Section</u> | <u>Index</u> | <u>Objective</u> |
|----------------|-----------------------|------------------|
| Each Manager | MSCI Emerging Markets | Exceed by 1.00% |

Relative to other professionally managed accounts:

| <u>Section</u> | <u>GRID® Universe</u> | <u>Objective</u> |
|----------------|-------------------------|------------------|
| Each Manager | Emerging Markets Equity | Top 50% |

Risk (standard deviation) relative to other professionally managed accounts:

| <u>Section</u> | <u>Index</u> | <u>Objective</u> |
|----------------|---------------------|------------------|
| Each Manager | MSCI EM Down Market | Exceed |

F. Fixed Income

1. Core and Core Plus Fixed

Relative to appropriate indices:

| <u>Section</u> | <u>Index</u> | <u>Objective</u> |
|---------------------|--------------|------------------|
| BC G/C Manager | BC Agg | Exceed by 0.25% |
| BC Agg Plus Manager | BC Agg | Exceed by 0.50% |

Relative to other professionally managed accounts:

| <u>Section</u> | <u>GRID® Universe</u> | <u>Objective</u> |
|---------------------|-----------------------|------------------|
| BC G/C Manager | Fixed Income | Top 50% |
| BC Agg Plus Manager | Fixed Income Plus | Top 50% |

Risk (standard deviation) relative to other professionally managed accounts:

| <u>Section</u> | <u>Index</u> | <u>Objective</u> |
|---------------------|--------------------|------------------|
| BC G/C Manager | BC G/C Down Market | Exceed |
| BC Agg Plus Manager | BC Agg Down Market | Exceed |

2. Intermediate and Intermediate Plus Fixed

Relative to appropriate indices:

| <u>Section</u> | <u>Index</u> | <u>Objective</u> |
|-----------------------|---------------------------|------------------|
| Intermediate Manager | BC G/C I | Exceed by 0.25% |
| Intermediate Plus Mgr | BC Intermediate Aggregate | Exceed by 0.50% |

Relative to other professionally managed accounts:

| <u>Section</u> | <u>GRID® Universe</u> | <u>Objective</u> |
|-----------------------|-------------------------|------------------|
| Intermediate Manager | Intermediate Fixed | Top 50% |
| Intermediate Plus Mgr | Intermediate Fixed Plus | Top 50% |

Risk (standard deviation) relative to other professionally managed accounts:

| <u>Section</u> | <u>Index</u> | <u>Objective</u> |
|-----------------------|------------------------|------------------|
| Intermediate Manager | BC G/C I Down Market | Exceed |
| Intermediate Plus Mgr | BC Int Agg Down Market | Exceed |

VI. COMMUNICATIONS AND RESPONSIBILITIES

The Commission considers the ongoing process of understanding and monitoring the Investment Managers' strategies and performance of primary importance. The following highlights the responsibilities of the Commission, Investment Managers, Custodian and Consultant. Each party should maintain complete, open and timely communications with the Commission at all times.

- A. The Commission should communicate any changes in the Guidelines to the Investment Managers, in consultation with the Consultant. Investment personnel, the Commission Executive Director and the Consultant should meet with the Commission quarterly to review the investment activity and performance of the Investment Managers.
- B. The Investment Managers are expected to acknowledge the acceptance of the Guidelines, submit any recommended changes; and attend Commission meetings at least annually or as requested by the Commission to review investment activity and performance. This evaluation should indicate the current portfolio strategy, as well as commentary on the outlook for the economy and capital markets. Investment Managers are given discretionary authority to manage assets of the Fund, however, each Investment Manager is obligated to be in compliance with the Guidelines and its contract with the City of Philadelphia acting through its the Commission.

Additionally, the Investment Managers are required to submit to the Commission and the Consultant monthly reports which should contain a listing of holdings at cost and market value, purchases, sales and monthly returns.

Quarterly reports, in addition to containing the above data, should contain as appropriate, the following:

- Equity portfolio characteristics such as number of issues, weighted average and median market capitalization, price/earnings and book ratios and dividend yield.

- Fixed-income portfolio characteristics such as yield-to-maturity, weighted average maturity and effective duration.
- Sector weights compared to the appropriate index.
- Portfolio statistics such as beta, R-squared, standard deviation and Sharpe ratio.
- Investment summary explaining the factors contributing to, or detracting from performance.

Along with the quarterly reports submitted to the Commission, a report detailing proxy voting and trading using the Fund's directed brokers should be included.

- C. The Custodian of the Fund is expected to provide monthly and fiscal year end (June 30) statements of portfolio transactions and invested positions by cost and market to both the Commission and the Consultant. Safekeeping of assets will be provided by the Trustee/Custodian.
- D. The Consultant to the Fund is expected to provide quarterly reviews of investment activity and results presented in light of the appropriate standards set forth in the Guidelines, attend and present at quarterly meetings or as requested by the Commission and conduct manager searches as agreed on by the Commission and the Consultant.

APPENDIX A - Index and Universe Identifications and Definitions

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| Russell 1000 [®] | Russell Investments' market capitalization-weighted domestic equity index constructed of the 1,000 largest capitalized companies. |
| Russell 1000 Growth [®] | Domestic equity index constructed of the Russell 1000 Index [®] stocks with price-to-book ratios greater than the capitalization-weighted median and higher forecasted growth values. |
| Russell 1000 Value [®] | Domestic equity index constructed of the Russell 1000 Index [®] stocks with price-to-book ratios lower than the capitalization-weighted median and lower forecasted growth values. |
| S&P 500 | Standard & Poor's 500 Composite Stock Price Index. A market value-weighted index of 500 stocks traded on the NYSE, NYSE Amex Equities and Nasdaq [®] chosen by S&P as leading companies in leading industries within the U.S. economy. |
| Russell 2000 [®] | Russell Investment's market capitalization-weighted domestic equity index constructed from the Russell 3000 Index [®] of the 3,000 largest capitalized companies, less the Russell 1000 Index [®] stocks. |
| Russell 2000 Growth [®] | Domestic equity index constructed from the Russell 2000 Index [®] stocks with price-to-book ratios greater than the capitalization-weighted median and higher forecasted growth values. |
| Russell 2000 Value [®] | Domestic equity index constructed of the Russell 2000 Index [®] stocks with price-to-book ratios lower than the capitalization-weighted median and lower forecasted growth values. |
| EAFE | Morgan Stanley Capital International (MSCI) Europe, Australia and Far East (EAFE) International Equity Index. |
| MSCI Emerging Markets | Morgan Stanley Capital International (MSCI) Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. |
| BC Agg | Barclays Capital Aggregate Bond Index. Composed of securities from the Barclays Capital Government/Credit Bond Index, the Barclays Capital Mortgage-Backed Securities Index and the Barclays Capital Asset-Backed Securities Index which are investment grade and meet certain maturity and liquidity constraint (market capitalization) standards. |

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| BC Agg I | Barclays Capital Aggregate Intermediate Bond Index. Composed of securities from the Barclays Capital Aggregate Bond Index having a duration in a defined range which is shorter than that of the Barclays Capital Aggregate Index. |
| BC G/C | Barclays Capital Government/Credit Bond Index. Composed of securities from the Barclays Capital Government Index (including U.S. Treasury and Agency securities) and the Barclays Capital Credit Index (including corporate and Yankee bonds). |
| BC G/C I | Barclays Capital Government/Credit Intermediate Bond Index. Composed of securities from the Barclays Capital Government/Credit Bond Index having a duration in a defined range which is shorter than that of the Barclays Capital Government/Credit Bond Index. |
| CPI | Consumer Price Index - All Urban Consumers (CPI-U). Published monthly by the Bureau of Labor Statistics of the U.S. Department of Labor. Reflects changes in the prices paid by urban consumers for a representative basket of goods and services. |

The above index total returns are the benchmarks used for the performance objectives and the down market (risk) constraints. A down market is defined as the cumulative negative quarterly total returns (annualized for cumulative quarterly down markets over one year) for the trailing time period evaluated.

Yanni Partners GRID® (Graphical Ranking of Investment Descriptors) Universe

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| Equity: | The Equity Universe is comprised of those funds with a broad large-cap equity market orientation. |
| Growth Equity: | The Growth Equity Universe is comprised of those funds with a growth equity orientation. |
| Value Equity: | The Value Equity Universe is comprised of those funds with a large-cap value equity orientation. |
| Core Equity Balanced: | The Core Equity Balanced Universe is comprised of those funds with a 40% - 60% equity exposure. |
| High Equity Balanced: | The High Equity Balanced Universe is comprised of those funds with a 55% - 75% equity exposure. |
| Small-Cap Equity: | The Small-Cap Equity Universe is comprised of those funds with a small-cap orientation. |

Small-Cap Growth Equity: The Small-Cap Growth Equity Universe is comprised of those funds with a small-cap growth orientation.

Small-Cap Value Equity: The Small-Cap Value Equity Universe is comprised of those funds with a small-cap value orientation.

International Equity: The International Equity Universe is comprised of those funds with both an international and global, currency hedged and non-currency hedged equity orientation.

Emerging Markets: The Emerging Markets Universe is comprised of those funds that invest in Emerging International (Non-US) currency hedged and non-hedged equities.

Fixed Income: The Fixed-Income Universe is comprised of those funds with a core fixed-income orientation.

Fixed Income Plus: The Fixed-Income Universe is comprised of those funds with a core fixed-income orientation which have the ability to add, on an opportunistic basis, securities having greater risk and greater potential reward.

Intermediate Fixed Income The Intermediate Fixed-Income Universe is comprised of those funds with an intermediate (10 years or less) duration fixed-income orientation.

Intermediate Fixed Income Plus The Intermediate Fixed-Income Universe is comprised of those funds with an intermediate (10 years or less) duration fixed-income orientation which have the ability to add, on an opportunistic basis, securities having greater risk and greater potential reward.