Purpose and Objectives

The Hedge Fund Portfolio within the Absolute Return Program (the “Program”) will invest in active strategies whose return and risk profiles are expected to differ meaningfully from traditional investment strategies. These strategies have historically generated returns by exploiting mis-pricings and inefficiencies in global capital markets while attempting to reduce exposures to primary market factors (e.g. equity markets and interest rates) through various hedging techniques. These strategies have historically delivered returns that are less correlated with equity and fixed income markets than traditional investment strategies.¹ The goals of the Program are as follows:

- Enhance OCERS’ (the “Fund”) long-term risk-adjusted returns;
- Preserve capital and lower the Fund’s overall volatility; and
- Provide diversification benefits to the Fund.

Asset Allocation

The Program will be funded based on the Fund’s overall asset allocation plan. The current asset allocation target for the Program is 7%, with the allowance for the allocation to be within a 5% to 9% range. Taking into account the less liquid nature of hedge funds, there is a possibility that the Program allocation may be out of compliance with its limits. If this should occur, OCERS’ Staff (“Staff”) will inform the Investment Committee (“Committee”) of specific plans for rebalancing the allocation and an expected time frame for the remedial actions.

General Portfolio Objectives

The following objectives should be considered over a full market cycle (typically 5-7 years):

- Return Objectives: LIBOR + 400 to 600 bps
- Volatility (standard deviation): 5% to 8%
- Beta to MSCI ACWI: Less than .25
- Correlation to MSCI ACWI: Less than 0.65

¹ Past performance is no indicative of future results.
General Portfolio Guidelines

- Manager Diversification: target approximately 15 managers
- Initial lock-ups will generally be no greater than 3-years with the ability to withdraw all assets penalty free within a maximum of 5-years, unless Staff and the Consultant decide the benefits for a longer lock-up vehicle are opportunistic.
- Maximum Single Fund Allocation: Allocations should not exceed 15% for direct investments in a hedge fund or 20% for a fund of hedge funds.¹
- Leverage: No leverage will be used at the total portfolio level; however, leverage may exist at the manager level.

Portfolio Eligible Hedge Fund Sectors and Strategies:

<table>
<thead>
<tr>
<th>SECTORS</th>
<th>STRATEGIES</th>
<th>PRIMARY INSTRUMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Long/Short</td>
<td>Fundamental</td>
<td>Public Equities</td>
</tr>
<tr>
<td></td>
<td>Thematic</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Multi-FM</td>
<td></td>
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<tr>
<td></td>
<td>Specialist</td>
<td></td>
</tr>
<tr>
<td>Event Driven</td>
<td>Credit</td>
<td>Public Debt</td>
</tr>
<tr>
<td></td>
<td>Value</td>
<td>Public Equities</td>
</tr>
<tr>
<td></td>
<td>Event &amp; Merger</td>
<td>Private Debt</td>
</tr>
<tr>
<td></td>
<td>Fixed Income Substitute</td>
<td></td>
</tr>
<tr>
<td>Relative Value</td>
<td>Long/Short Credit</td>
<td>Public Equities</td>
</tr>
<tr>
<td></td>
<td>Fixed Income RV</td>
<td>Public Debt</td>
</tr>
<tr>
<td></td>
<td>Quantitative Strategies</td>
<td>Public Debt</td>
</tr>
<tr>
<td></td>
<td>Insurance Linked</td>
<td>Currencies</td>
</tr>
<tr>
<td></td>
<td>Volatility</td>
<td></td>
</tr>
<tr>
<td>Tactical Trading</td>
<td>Global Macro</td>
<td>Interest Rates</td>
</tr>
<tr>
<td></td>
<td>Discretionary Commodities</td>
<td>Commodity</td>
</tr>
<tr>
<td></td>
<td>CTA</td>
<td>Equities</td>
</tr>
<tr>
<td></td>
<td>Risk Mitigators</td>
<td>Currencies</td>
</tr>
<tr>
<td>Multi-Strategy</td>
<td>Multi-Strategy</td>
<td>Various Instruments</td>
</tr>
</tbody>
</table>

¹ These percentages are based upon the portfolio being fully funded. Therefore, during the funding stages, these diversification numbers and percentages may deviate from the proposed guidelines as the portfolio will not hold the cash required to be fully funded. During the funding stages, the portfolio may not be diversified in a manner to reduce the impact of large losses resulting from investments in individual managers or funds. In addition, such percentages may deviate from the guidelines for the benefit of the overall Fund, as more fully described under AR Portfolio Transition Period.
Hedge Fund Portfolio Investment Policy Statement

- Sector/Strategy Guidelines: It should be noted that these maximum allocations shall be used as a general guideline and there are no strategy targets at this time. Each sector allocation will maintain flexibility in regard to the strategies employed.

<table>
<thead>
<tr>
<th>SECTOR CONSTRAINTS</th>
<th>MIN</th>
<th>MAX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Long/Short</td>
<td>0%</td>
<td>30%</td>
</tr>
<tr>
<td>Event Driven</td>
<td>0%</td>
<td>50%</td>
</tr>
<tr>
<td>Relative Value</td>
<td>0%</td>
<td>35%</td>
</tr>
<tr>
<td>Tactical Trading</td>
<td>0%</td>
<td>50%</td>
</tr>
<tr>
<td>Multi-Strategy</td>
<td>0%</td>
<td>40%</td>
</tr>
</tbody>
</table>

AR Portfolio Transition Period

These guidelines are based on the portfolio being fully funded. As a result, during funding or transition phases, the actual percentages may not conform to the guidelines and the portfolio may not be fully diversified. While the goal of the Program is to build and maintain a diversified portfolio, it may be determined by Staff and Committee that individual positions should be considered in the context of the overall OCERS Fund, and therefore may be judged appropriate to be out of compliance with the Program guidelines set forth in this IPS. The interests of the Fund supersede guidelines of the subordinate Program.

To the extent that the Absolute Return Program or single manager allocation exceeds any of the established guidelines in this document, and an exception has not been deemed appropriate by the Committee, Staff should take remedial actions expeditiously to bring the portfolio back into compliance once an issue has been identified. The result of these actions may not be immediately evident or curable given the relative illiquid nature of hedge fund vehicles.

Manager Selection

In accordance with the Program’s Objectives and Guidelines, Staff and the consultant will identify potential hedge fund sectors and strategies for the Committee’s consideration, and then identify and evaluate managers that focus on such sectors and strategies.

In evaluating managers and investments, Staff and the consultant, shall share with the Committee criteria for the selection of managers and investments as well as criteria set forth in this IPS under Implementation Guidelines, taking into account deviations appropriate to the unique characteristics of direct hedge fund investments.
Hedge Fund Portfolio Investment Policy Statement

Investment Selection Criteria

Staff should consider the following non-determinate attributes of hedge fund managers, investment programs and vehicles (in no particular order):

- Performance history of proposed vehicle;
- Terms and alignment of economic interests;
- Assets under management for the relevant strategy;
- Initial lockup and redemption provisions;
- Absolute Return Program investment relative to the size of the fund;
- Fund transparency;
- Capacity in the proposed vehicle;
- Willingness to agree to side-letter provisions.

Staff and the consultant should also consider the following criteria when selecting managers for the Absolute Return Program:

- Manager history and background;
- Business philosophy and product overview;
- Investment strategy: strategy overview, decision making, research process, AUM growth history;
- Investment team: staffing, key person dependency, turnover, compensation, ownership;
- Risk management: philosophy, systems, asset/liability mismatch, risk exposure and leverage, position sizing, and side-pockets.

In addition, the consultant will consider the following operational criteria:

- Operational and Infrastructure: business complexity, processes, non-investment staffing, independence of NAV calculation;
- Regulatory, compliance and background considerations;
- The PPM, ADV and Financial Statements (as applicable).
General Implementation Guidelines

The aforementioned Portfolio Guidelines will be implemented by placing assets under the management and discretion of third party managers, either through pooled investment vehicles or by giving such managers authority to invest portfolio assets in separately managed accounts.

The following considerations will be taken into account and all else equal, preference will be given to the following:

- Registration with a major regulatory body;
- 3-year performance track record;
- Strategy assets greater than US$500 million;
- Monthly performance reporting;
- Use of recognized service providers;
- Sufficient transparency via access to portfolio information, analysts, portfolio managers, etc.

Rebalancing and Redemption

Per the Fund’s overall IPS, the Chief Investment Officer has authority to rebalance to the approved targets as and when necessary. Staff shall monitor the Program to ensure that the allocation is within the designated range set forth in the Fund’s overall asset allocation plan, as well as, the Sector/Strategy limits set forth in the Program’s IPS Portfolio Guidelines. Upon any deviation from these ranges, the allocation will be rebalanced in a timely fashion. Taking into account the less liquid nature of hedge funds, there is a possibility that the Program and/or Sector/Strategy allocation may be out of compliance with its limits temporarily. If this should occur, Staff will inform the Committee of specific plans for rebalancing the allocation and an expected time frame for the remedial actions. Any increases in allocations to managers during the rebalancing process shall be within the pre-approved ranges set forth by the Committee.

Staff and the consultant, will regularly monitor and assess managers. Managers may be terminated for many reasons, including but not limited to conflicts of interest, unethical behavior or violations of the investment management agreement. Additionally, managers may be recommended for redemption for reasons based upon, but not limited to, poor performance, perceived change in investment strategy (i.e. style drift), significant changes in business (i.e. turnover of staff), a determination that their strategy is out of favor, other more attractive managers/opportunities exist, or due to strategic repositioning of the portfolio.

Rebalancing and/or redemptions will be reviewed with the Committee in the subsequent monthly report.
Responsibilities and Delegation

Role of Investment Committee

The Committee shall:

- approve the Absolute Return Program Investment Policy Statement (the “IPS”) and all changes to the IPS;
- approve the retention and review performance of strategic consultants and advisors and other external resources, as needed;
- approve investments/terminations of investment strategies and managers; and/or delegation of manager retention/termination to Staff as deemed appropriate.

Roles of the OCERS’ Staff

The duties of the Staff include, but are not limited to:

- reviewing and recommending changes to the Program IPS, developing and implementing periodic reviews of the Program and managing the operations of the Program;
- working with OCERS’ consultants on identifying and evaluating hedge fund strategies, investment managers and investments appropriate for the Program, and on making selection recommendations to the Committee;
- as needed, identifying and evaluating strategic consultants and advisors and other external resources for the Program, and making selection recommendations to the Committee;
- overseeing the Fund’s portfolio of Program investments, including management of consultants and advisors and other external resources engaged on OCERS’ behalf in connection with the Program;
- highlighting to the Committee any material exceptions to the Investment Guidelines for managers as set forth in the Program IPS;
- monitoring and reporting on performance and risk metrics as provided by the managers with respect to the overall purpose and objectives of the Program.

Role of the Consultants

The duties of the Fund’s consultants include, but are not limited to:

- reporting directly to Committee on periodic basis with regard to portfolio performance and positioning, as well as overall Program status as requested;
- providing advice to the Committee and Staff with respect to the development and operation of the Program, including advice on industry developments and portfolio construction, with the goal of an overall Program risk/return profile deemed appropriate by the Committee, Staff and the consultant and monitoring capital markets for investment strategies and investment opportunities;
OCERS Board Policy

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- assisting the Committee and Staff in developing the IPS and in periodic reviews of the IPS and the Program;
- assisting Staff in identifying, evaluating and recommending investment opportunities and terminations consistent with the IPS and believed to be appropriate for the Program, including conducting due diligence with respect to new investments, as requested;
- assisting Staff with the implementation and execution of new investments;
- assisting Staff with the ongoing review of committed investments, including reports to the Staff on significant manager developments, proposed amendments to fund documentation and investment performance, and periodic and timely review of the risk of OCERS’ investment portfolios (although it is recognized that the ability to provide any such review is limited with respect to hedge funds due to the nature of the underlying hedge fund investments);
- Provide Staff reports including: monthly portfolio performance reporting, manager investment and operational due diligence reports, updates and/or Meetings/Calls Notes for all invested managers, periodic portfolio risk and exposure reports (upon request), periodic quantitative portfolio reports and outlook.

Policy History
This policy was adopted by the Board of Retirement on August 25, 2013.

Secretary’s Certificate

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this policy.

Steve Delaney
Secretary of the Board

8/25/13
Date