DISTRICT OF COLUMBIA RETIREMENT BOARD
STATEMENT OF INVESTMENT POLICY, OBJECTIVES AND GUIDELINES

INTRODUCTION

The District of Columbia Retirement Board, a defined benefit plan, was created to manage and control the separate retirement funds established for teachers, police officers and firefighters of the District of Columbia. The Board is charged by law with responsibility for the investment of the assets. To assist the Board in this function, it is authorized to engage the services of professional Investment Managers, accepting full fiduciary responsibility, who possess the necessary specialized research facilities and skills to manage a particular asset class. Each Investment Manager is accorded full discretion, within general and specific Investment Manager policy guidelines, limits and restrictions, to select and time individual purchase and sale transactions and to diversify assets appropriately. Each Investment Manager shall acknowledge in writing that it is a fiduciary as defined by ERISA. The Investment Policy Statement shall be reviewed periodically by the Board (specifically the Investment Committee). All modifications shall be in writing and approved by the Board.

Board assets shall be invested in a manner consistent with the fiduciary standards of ERISA, namely, (1) all transactions undertaken must be in the sole interest of the participants and beneficiaries to provide benefits and defray reasonable expenses of plan administration in a prudent manner, and (2) assets are to be diversified in order to minimize the impact of large losses in individual investments.

The Investment Committee of the Board will meet regularly to review policies, transactions, and investment results of each Investment Manager and of the Permanent Fund (the long term investment program) as a whole. The Investment Committee will report to and make recommendations to the Board at each meeting of the Board. Each Investment Manager shall be available to have representatives meet with the Investment Committee or the Board at its discretion for a discussion of the assets under management. All Investment Managers are invited to participate in the evaluation process and to contribute to the strategic planning process on a continuing basis.

INVESTMENT OBJECTIVES

A. The Board seeks long-term investment returns in excess of the actuarial investment assumption at a level of risk commensurate with the levels of returns and consistent with sound and responsible investment practices. The present assumed actuarial rate as determined by the Board's enrolled actuary is 7.25%, which may be changed from time to time.

B. The Board seeks to achieve or exceed the return on a portfolio benchmark known as the Target Fund Benchmark over time. The Total Fund Benchmark is a portfolio composed of a specific mix of the authorized asset classes. The return of this portfolio is a weighted average of the returns to passive benchmarks for each of the asset classes. The assumption is that this return will exceed the actuarial rate of return and will thus assure achievement of the Board's primary investment objective.

ASSET CLASSES AND ALLOCATION OF ASSETS

All assets of the Board shall be allocated to and invested in one of the asset classes listed in the following table:

Asset Class	Target Allocation
Domestic Equities	43.7% ±8%
International Equities	20.0%±4%
Fixed Income	30.3%±3%
Private Equity	5.0%±3%
Short-Term	1.0%

The Board has deemed it advisable to commingle the assets of the Teachers' Retirement Fund and the Police Officers' and Firefighters' Retirement Fund (the two retirement funds) and has established the Permanent Fund to receive, hold, invest and reinvest all monies contributed by covered employees and the District government that are greater than the estimated amount necessary to meet anticipated benefit payments and other administrative expenses over a three month period.

REBALANCING PROGRAM

The Investment Committee in consultant with the Investment Staff and Investment Consultant shall monitor on a regular, periodic basis the percentage allocation of each asset class which may change from time to time. Due to market conditions, the asset allocation may inadvertently move outside the targets established by the Board. In an effort to maintain target allocation ranges, the Board has adopted a policy of rebalancing the actual asset mix of the equity and fixed income asset classes back to the outer edge of the target range. The Investment Staff is authorized by the Board to take the necessary action to rebalance the assets to within the targets established above, while controlling transactions costs. As a consequence of rebalancing, a shift in funds away from Investment Managers may be warranted. On the other hand, the action of rebalancing may necessitate directing additional funds to Investment Managers. Investment Managers will receive written notification prior to such action.

STANDARDS AND MEASURES OF PERFORMANCE

Performance measurement will be made on a regular basis, at least quarterly, and will include comparisons against established indices as well as other similar Investment Managers for each asset class. Performance shall mean the total rate of return, computed on a time-weighted basis, prepared and presented in accordance with AIMR Performance Presentation Standards. Investment Managers are expected to add value after expenses to the Fund's investment return and provide performance that exceeds representative indices and the returns of similar Investment Managers over a complete market cycle. The Board controls risk and sets return objectives for the Permanent Fund investment through asset allocation and manager selection decisions. The Board also sets return objectives for each Investment Manager. The Investment Managers will be evaluated solely on their role in the investment structure. The Total Fund performance is not the responsibility of individual Investment Managers. While the Board has a long-term investment horizon, Investment Manager performance deficiency will be judiciously addressed before Total Fund performance is negatively impacted and achievement of the long-term performance objectives is impaired. A specific performance benchmark for each traditional Investment Manager will be identified in the Investment Management Agreement and style specific Statement of Investment Guidelines. The Board will monitor its overall, long-term performance against the following relevant indices: domestic equity-Russell 3000; international equity-MSCI EAFE; fixed income-Lehman Aggregate Bond; private equity-Cambridge Private Investments and short term equivalents-90 day T-Bills.

SECURITIES LENDING

The Board has authorized its Master Custodian to lend available portfolio securities to approved borrowers in accordance with the terms of the Securities Lending Agreement. All traditional portfolios are presently enrolled in the securities lending program. The Master Custodian makes every effort to allocate loans equitable among the Program participants. Daily allocations are subject to the number of loan requests and the availability of the requested securities in each account. The system of loan allocation conforms with the fiduciary requirements of the Employee Retirement Income Security Act of 1974. Participation in the Program minimizes interference with portfolio management, who may continue to buy and sell securities in accordance with investment strategies.

WATCH LIST

The Watch List is a mechanism used by the Board to express discomfort with an investment management firm. Discomfort may be caused by deficiency in performance, departure of key personnel, financial instability, change in organizational and ownership structure, consultant downgrade, contravention of any term or condition of the agreement or any other issue believed by the Board to undermine its confidence in the firm.

Both qualitative and quantitative criteria of each investment manager shall be monitored on an ongoing basis.

For qualitative purposes, an assessment will be made as to whether any changes regarding the firm’s organization/ownership, people, and processes are material enough to warrant placing the firm on the Watch List.

For quantitative purposes, criteria will incorporate both long-term and short-term time horizons with respect to the portfolio’s characteristics, guideline compliance, and performance. Deviations from expected targets, such as benchmark excess return and tracking error, will result in the firm under going review. Quantitative measures and expectations will incorporate criteria specific to the firm’ s mandate and management style.

Violations of any quantitative or qualitative criteria will trigger an automatic due diligence review and recommendation to the Board, which may lead to placement on the Watch List or termination.

A firm placed on the Watch List will remain on the List for at least two consecutive quarters. Removal from the Watch List will be at the discretion of the Board.

No provision associated with the Watch List policy shall limit the Board’s ability to retain or terminate contractual relations with an investment manager. Managers on the Watch List will not be eligible to receive additional funding.

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CASH SWEEP

Uninvested cash balances must be kept to a minimum. The Investment Manager shall be responsible for managing cash levels while the Master Custodian shall be responsible for the investment of cash.

While extremes of "market timing" will not ordinarily be considered desirable, the Board realizes that some degree of market timing may be exercised by individual Investment Managers. Investment Managers have the discretion of placing a portion of their individual accounts in cash for temporary defensive purposes, when in their judgement, it is necessary to achieve their investment objective and minimize risk. The Master Custodian will automatically invest any available cash holdings in their Short-Term Investment Fund (STIF). Under normal market conditions, an equity manager may not hold more than 5 percent of the market value of its investment account in cash and short-term securities without prior written notification and subsequent approval from the Board. Fixed-income managers may invest up to 40 percent of the market value of their account in short-term securities.

PROXY VOTING

Equity Investment Managers shall promptly vote and monitor proxies and related actions in a manner consistent with the Proxy Voting Guidelines. The Investment Manager shall exercise all voting rights consistent with its fiduciary duties under ERISA. Each Investment Manager shall keep detailed records of voting of proxies and related actions and comply with all regulatory obligations related thereto. Each Investment Manager shall annually, or more frequently if a significant or unusual type of event occurs, report to the Board or its delegate in writing as to actions taken in regard to proxy voting issues.

BROKERAGE

When placing orders with brokers and dealers, each Investment Manager's primary objective shall be to obtain the most favorable price and best execution available for the Board. In seeking to achieve that objective, the Investment Manager may consider a number of factors including, without limitation, the financial strength and stability of the broker, the efficiency with which the transaction will be effected, and the ability to effect the transaction where a large block is involved. Transactions may be directed to minority-owned brokers suggested by the Board at the Investment Manager's discretion only when best execution is available. Transaction costs shall be minimized through cross trading, program trading and by utilizing brokerage firms with a history of providing good execution. If Investment Managers effect a transaction that causes the Board to pay a commission in excess of the commission another broker would have charged for effecting such transaction, then such transaction must be effected in compliance with Section 28(e) of the Securities Exchange Act of 1934, as amended and the Investment Manager must determine in good faith that such amount of commission is reasonable in relation to the value of the brokerage and research services provided by the broker utilized by the Investment Manager. The Investment Manager must identify and provide a written description to the Board of all "soft dollar" arrangements that affect the account and how the Board directly benefitted from the services to warrant added expense.

LOCAL BROKERAGE CREDIT

Investment Managers have full discretionary authority to select any broker-dealer they choose to execute securities transactions on behalf of the Board consistent with the principles of best price and execution. To the extent the selected broker-dealer maintains an office physically located in the District of Columbia that is subject to the District's income and franchise tax, the Investment Manager is required to make reasonable efforts to ensure that all commission dollars generated by securities trading by the broker on behalf of the Board's account are credited on the books and records of the broker-dealer's District office.

MANAGER TRANSITION PROCESS

The transition of assets from one Investment Manager to another can generate significant expenses for the Board, both in terms of commissions and in diminished value from market impact of trades. As the facts and circumstances of transitions can vary significantly, it is not possible to minimize the impact of transitions by employing all means available.

REPORTING

Reports on investment performance (rates of return gross and net of Investment Manager fees), book and market values of portfolio assets, portfolio turnover rate, manager compliance and amount of commissions paid to minority-owned brokerage firms, minority brokers at majority firms and local brokerage credit must be submitted at least quarterly to the Board.

A report of all transactions shall be submitted at least monthly. This report will show for each issue, purchased or sold, the total amount, average unit price, total cost or proceeds including accrued income, the identity of the executing and clearing broker, and commissions paid. The Investment Manager must reconcile monthly statements with the Master Custodian and notify the Staff and the Investment Consultant of any material differences.

Each Investment Manager shall notify the Board promptly (within seven days) in writing of any extraordinary circumstances or events (such as material ownership changes; any reorganization; significant change in financial condition; meaningful change in investment personnel; significant change in investment philosophy; substantial loss or increase in clients; unusual market activity or any other significant event) which may arise in connection with either any investment in the portfolio or any material organization or personnel event. Such notification shall include full details regarding the extraordinary event and the Investment Manager's proposed actions. Unless notified by the Board to the contrary in writing, the Investment Manager shall have full discretion to deal with the extraordinary circumstance or event in accordance with its fiduciary responsibilities under the Investment Advisors Act of 1940 and under its Investment Management Agreement with the Board.

In the event of non-compliance with these guidelines, whether reported by the Investment Manager or detected by the Board or its delegate, the Investment Manager will be required to provide a statement describing the non-compliance event, the reason for its occurrence, and actions planned to correct the event and to prevent its occurrence in the future.

INVESTMENT POLICY GUIDELINES

The Board's investments are expected to maintain certain minimum characteristics which shall be viewed as guidelines in formulating investment strategies. For all traditional asset classes, no individual Investment Manager shall invest more than a total of 5% of a portfolio measured at cost in the debt or equity of any one company. In addition, prudent diversification standards should be developed and maintained by the Investment Manager. The ratings provided for in the investment guidelines are for guidance. The Investment Manager is responsible for making an independent analysis of the credit worthiness of securities and their appropriateness as an investment regardless of the classification provided by any rating service.

Equity
Equity securities shall generally included common stocks, units of beneficial interest, preferred stocks, convertible securities, warrants and rights to purchase common stock, exchange traded futures and options sponsored American Depositary Receipts and shares of foreign companies traded on U.S. stock exchanges.

Investment in common and preferred stocks shall be limited to securities of corporations listed on the New York Stock Exchange, American Stock Exchange, NASDAQ National Market and those over-the-counter securities of sufficient liquidity to be readily marketable.

Index Equity Securities: The Investment Manager of an indexed equity account is expected to employ a passive management strategy in structuring a portfolio that will approximate characteristics, and investment returns of those of an appropriate stock market index. For purposes of these Guidelines, the appropriate stock market index is the S&P 500 Index. The long term investment objective of an indexed equity securities account shall be preservation of principal while achieving an annual total rate of return, after allowing for transaction costs, that approximates the return of the S&P 500 index. Annual tracking error shall be ± 20 basis points.

Strategically Managed Equity Securities: Multiple investment styles will be utilized. If the Board selects more than one investment style for the management of strategic equity assets, it is contemplated that the multiple styles will be complementary and appropriate consideration will be given to expected return and volatility characteristics of the Investment Managers. The Investment Managers of a strategically managed equity account are expected to add value through employment of an active management strategy in building, reviewing, and restructuring a portfolio that will, in the judgment of the Investment Manager, achieve the investment objective and minimize risk.

A. Large Cap Value: The Investment Manager of a large cap equity account is expected to achieve a total rate of return from investments in domestic equity instruments that exceeds the S&P 500 BARRA Value Index by no less than 200 basis points per annum gross of management fees on average over three to five year periods. Annual tracking error shall not exceed ± 500 basis points on average.

B. Large Cap Growth: The Investment Manager of a large cap equity account is expected to achieve a total rate of return from investments in domestic equity instruments that exceeds the S&P 500 BARRA Growth Index by no less than 200 basis points per annum gross of management fees on average over three to five year periods. Annual tracking error shall not exceed ± 500 basis points on average.

C. Small/Mid Cap Growth: The Investment Manager of a small/mid (average market cap between $750 million to $10 billion) cap equity account is expected to achieve a total rate of return from investments in domestic equity instruments that exceeds the Russell 2500 Growth Index by no less than 350 basis points per annum gross of management fees on average over three to five year periods. Annual tracking error shall not exceed ± 1000 basis points on average.

D. Small/Mid Cap Value: The Investment Manager of a small/mid (average market cap between $750 million to $10 billion) cap equity account is expected to achieve a total rate of return from investments in domestic equity instruments that exceeds the Russell 2500 Growth Index by no less than 350 basis points per annum gross of management fees on average over three to five year periods. Annual tracking error shall not exceed ± 1000 basis points on average.

E. Core International Equity: The Investment Manager of an international equity account is expected to achieve a rate of return from investments in the equity securities of the developed markets that exceeds the MSCI EAFE Index by no less than 200 basis points per annum gross of management fees on average over three to five year periods.

Fixed Income
Fixed income shall generally include publicly traded debt securities issued by the United States Government or agencies and instrumentalities of the United States Government, corporations and banks and other financial institutions, mortgage backed securities issued by the Government National Mortgage Association (GNMA), the Federally National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC), non federally insured mortgage backed bonds, permissible CMOs, municipal securities, asset backed securities, 144A, TBA securities, Yankee bonds, exchange-traded futures and options.

For the most part, debt investments are limited to the first four quality grades as established by Standards & Poor’s and Moody’s. Ratings of less than BBB or BAA are also permissible if authorized in writing by the Board. If an issue is split-rated, it will be governed by the lower quality rating.

Strategically Managed Bonds: The Investment Manager of a strategically managed bond investment account is expected to add value to the assets in their charge through advantageous maturity shifting across the entire spectrum of short term, intermediate term and long term fixed income securities, issue selection and sector and quality shifting. It is expected that the average duration will be lengthened or shortened by the manager when, in their judgment, it is necessary to achieve their investment objective and minimize risk.

A. Core Bond: The Investment Manager of a core bond investment account, with noexposure to mortgage obligations, is expected to generate a rate of return that exceeds the Lehman Government Credit Index by no less than 50 basis points per annum gross of management fees on average over three to five year periods. The Investment Manager with exposure to mortgages is expected to exceed the performance of the Lehman Aggregate Bond Index by 75 basis points per annum gross of management fees on average over three to five year periods. The Investment Manager shall vary the portfolio duration around the Index no more than ±20% over a majority of the time periods.

B. Active Duration (or CorePlus): The Investment Manager of an active duration bond investment account is expected to generate a rate of return that exceeds the Lehman Aggregate Bond Index by 100 basis points per annum gross of management fees on average over three to five year periods. The Investment Manager shall not be restricted in managing the portfolio duration around the Index. The Investment Manager may also invest on an opportunistic basis in the following, provided written authority is granted in their style specific investment guidelines.

   1. Global Fixed Income. The Investment Manager with exposure to global fixed income securities is expected to add value by investing in both international and global fixed income securities. The Investment Manager is expected to take advantage of foreign currency and interest rate movements, bond yield, country and security selections.

   2. High Yield Bonds. The Investment Manager with exposure to high yield fixed income securities is expected to add value by investing in securities rated below investment grade by the major rating services.

Cash Equivalents
Cash equivalents include publicly traded debt securities issued by the United States Government or agencies of the United States Government, commercial paper, certificates of deposit, and short

term investment or money market funds of institutional quality of entities domiciled in the U.S. with effective maturities of 90 days.

Private Equity
The private equity portfolio consists of investments in leveraged buy-outs funds, mezzanine funds, and in venture capital funds. Fund investments are typically structured as limited partnerships. Leverage buy-out and mezzanine investments may be made in debt, equity or both and may be in operating or holding companies. Funds are expected to hold a diverse portfolio of underlying investments and may invest at various stages of a company's development, not including seed companies.

PROHIBITED INVESTMENTS

C. The Investment Manager shall not invest in the following:

1. Real property, real estate trust securities or real estate investment trusts comprised of properties located in Washington, D.C., Maryland and Virginia. The Investment Manager shall not invest in loans, mortgages, bonds, notes, bills or any other evidence of indebtedness secured in whole or in part by real property of such jurisdictions.

2. Interest bearing bonds, notes, bills or any evidence of indebtedness of the governments of the District of Columbia, the Commonwealth of Virginia and the State of Maryland, the government of any political subdivision thereof, or of any entity subject to control by any such government or any combination of any such governments.

3. Any obligations secured by or fully guaranteed as to the payment of both principal and interest by the government of the District of Columbia, the Commonwealth of Virginia, the State of Maryland, the government of any political subdivision thereof, or of any entity subject to control by any such government or any combination of any such governments.

B. The Investment Manager shall be authorized to invest in Real Estate Investment Trusts (REITs) or other similar pooled investments without regard to specific jurisdictional limitations proscribed in paragraph A above provided the Investment Manager determines that tsuch investment does not constitute plan assets under the U.S. Department of Labor ("DOL") plan asset regulations described at section 2510.3-101 of Title 29 of the Code of Federal Regulations, or any subsequently revised Federal regulations.