DISTRICT OF COLUMBIA RETIREMENT BOARD
STATEMENT OF GENERAL INVESTMENT POLICIES AND GUIDELINES

INTRODUCTION

The District of Columbia Retirement Board (the "Board"), a defined benefit plan, manages and controls the assets belonging to the Teachers' Retirement Fund and the Police Officers' and Firefighters' Retirement Fund (the "Funds " or "Total Fund"). The Board is charged by law with responsibility for the investment of these assets. The assets of the Funds are commingled for investment purposes. Within the investment structure, there exists a Permanent Fund for the long-term investment of cash inflows into the Funds and a Short-term Fund for payment of benefits and administrative cost.

The Board retains the services of investment advisors to manage individual investment portfolios. These professional Investment Managers acknowledge in writing their fiduciary responsibility and possess the necessary specialized research capabilities and skills. 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, diversify assets appropriately and control risk factors.

The standard of investment for the Funds shall be to exercise the judgment, care, skill and diligence under circumstances that a prudent person acting in a like capacity and familiar with matters of the type would use in the conduct of an enterprise with like character and like aims by diversifying the investments of the Funds to minimize the risk of large loss, unless under the circumstances it is clearly prudent not to do so, and in accordance with the documents and instruments governing the Funds. All fiduciaries, including Investment Managers, must discharge their duties with respect to the Funds solely in the interest of the participants and beneficiaries and for the exclusive purpose of providing benefits to such membership and their beneficiaries and defraying reasonable expenses of administering the Funds.

The Investment Committee (a committee of the whole) meets regularly to review policies, transactions, opportunities, structure and investment results of each Investment Manager and the Funds. The Investment Committee reports to and makes recommendations to the Board. Each Investment Manager must be available to meet with the Investment Committee, or the Board at its discretion, for a discussion of their 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 Managers must ensure that, at a minimum, its portfolio managers can manage an account consistence with any guidelines the Investment Manager accepts and that its personnel and systems can ensure compliance with the guidelines. All changes to investment guidelines must be confirmed in writing and circulated to all affected persons. Periodically, Investment Managers should review and confirm guidelines with the Investment staff to insure that they continue to be appropriate for the investment portfolio account.

INVESTMENT PERFORMANCE EVALUATION

To facilitate ongoing review of the investment program, the Board has established performance goals for the Total Fund, as well as individual portfolios and strategic asset classes. The Investment Committee will review return and risk relative to performance objectives on at least a quarterly basis.

Total Fund Objectives

A. The Board seeks long-term investment returns in excess of the actuarial investment rate assumption at a level of risk commensurate with the expected level of return and consistent with sound and responsible investment practices. The assumed actuarial investment rate is currently set at 7.25%.

B. Each measurement period, the Total Fund seeks to outperform the return of the Total Fund Benchmark (weighted average return of the strategic asset allocation).

Asset Class	Performance Benchmark	Weight
U.S. Equities	Russell 3000 Index	40%
International Equities	MSCI EAFE Index	20%
Fixed Income	Lehman Brothers Aggregate Index	25%
Real Estate	NCREIF Index	5%
Private Equity	Cambridge Private Equity Index	10%

STRATEGIC ASSET ALLOCATION POLICY

The Board, working closely with the Investment consultant and with input from the actuary, selects the optimal portfolio which best reflects the risk tolerance and environment for the Total Fund. Over the long term, the asset allocation policy is a key determinant of the level and volatility of returns generated by the Board. The following asset allocation structure was adopted by the Board in 2003 and the asset-liability process was recently updated in 2005. It was initially based on the September 30, 2001 actuarial valuation of the Teachers, Police Officers and Firefighters Retirement Funds and investment performance through September 30, 2002. In designing the new asset allocation policy, the Investment Committee discussed the expected risk, return and correlation of various mixes of assets. The approved allocation increases expected return and expected/best case results without a significant increase in worst case results.

New Strategic Asset Allocation

Asset Class	Target Allocation
Domestic Equities	40%±5%
International Equities	20%±5%
Fixed Income	25%±5%
Private Equity	10%±3%
Real Estate	5%∠3%

REBALANCING PROGRAM

The Investment staff will compare actual asset allocation versus the target on a quarterly basis. If an asset class minimum or maximum has been breached, it will be rebalanced to the outer edge of the target range. The rebalancing program will primarily apply to publicly traded asset classes. It is understood that less liquid asset classes such as real estate and alternative investments do not lend themselves to economically efficient rebalancing. Investment Managers will be notified in writing in advance of any rebalancing activity.

INVESTMENT MANAGER BENCHMARKS AND PERFORMANCE OBJECTIVES

The investment objective of each actively managed portfolio is to outperform a representative broad market index. Each investment style category included in the investment program is expected to contribute to the achievement of the objective over a rolling three year period.

Time weighted returns will be calculated monthly by the custodian to measure the performance of the Total Fund and Investment Managers in comparison with the Fund objectives, appropriate peer groups and managers and performance benchmarks.

A detailed performance report will be prepared quarterly by the Investment Consultant retained by the Board. This report will include information on the Total Fund, individual asset classes and Investment Managers for the current quarter, year to date, rolling 1, 3, 5, 7, 10 years and since inception. The performance report will be reviewed by the Investment Committee.

U.S. Equities

Fund Segment	**Index**	**Gross Alpha Target**	**Tracking Error Target**
Large Cap Passive	S&P 500	5 basis points	0.2%
Large Cap Growth	Russell 1000 Growth	200 basis points	9.0%
Large Cap Value	S&P 500/Citigroup Value	190 basis points	7.0%
Mid Cap Growth	Russell Midcap Growth	250 basis points	9.0%
Mid Cap Value	Russell Midcap Value	250 basis points	8.0%
Small Cap Growth	Russell 2000 Growth	280 basis points	10.0%
Small Cap Value	Russell 2000 Value	270 basis points	7.0%
Multi-Emerging Managers	Russell 3000	150 basis points	6.0%

International Equities

Fund Segment			
International Growth	MSCI EAFE Growth	250 basis points	9.0%
International Value	MSCI EAFE Value	200 basis points	6.0%
International Core Plus	MSCI ACWI ex US	200 basis points	7.0%

Fixed Income

Fund Segment			
Core	Lehman Govt Credit	50 basis points	0.8%
Core Plus I	Lehman Aggregate	95 basis points	1.5%
Core Plus II	Lehman Aggregate	105 basis points	1.5%

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. Uncharacteristic deviations from expected targets, such as benchmark excess return and tracking error, will result in the firm undergoing review. Quantitative measures and expectations will incorporate criteria specific to the firm's mandate and management style.

Violations of any quantitative and 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. Therefore, 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. Investment Managers on the Watch List will not be eligible for additional funding.

MANAGER TERMINATION DECISIONS

Investment Managers should be considered for termination when (1) their strategy no longer fits within the manager structure; (2) the investment manager breaches policy guidelines without authorization; (3) material adverse organizational change– ownership, personnel losses, asset size growth/decline; (4) change in investment philosophy or portfolio risk composition and structure; and/or (5) underperformance versus pre-established performance standards and (6) the Board loses confidence in the Investment Manager's skills.

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, the Board will seek to reduce the cost of reallocating assets by crossing and low cost trading.

SECURITIES LENDING

The Board has authorized its 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 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 ERISA. Participation in the Program minimizes interference with portfolio management, who may continue to buy and sell securities in accordance with investment strategies.

CASH SWEEP

Uninvested cash balances must be kept to a minimum. The Investment Manager shall be responsible for managing cash levels while the custodian is 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 the Board's investment objective and minimize risk. The 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, including cash and cash equivalents.

PROXY VOTING

Proxies are a significant and valuable tool in corporate governance and therefore have economic value. Equity Investment Managers must 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. Detailed records of voting of proxies and related actions must be collected and reported to the Board.

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. 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, 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.

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 Investment staff.

Purchase and sale transactions must be submitted 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 custodian and notify the Investment 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 Advisers 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 agent, 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 STRUCTURE

The Board's investments are expected to maintain certain minimum characteristics which shall be viewed as guidelines in formulating investment strategies. For traditional asset classes, Investment Managers generally may not invest more than 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 generally include 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.

Fixed Income

Fixed income securities 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 Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC), non federally insured mortgage backed bonds, permissible Collateralized Mortgage Obligations, 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.

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, fund-of-funds, special situations, secondaries and 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

A. 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 is 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 such 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.