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 facilities 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 and to diversify assets appropriately.

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, 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 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 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 confirm and /or review 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 performance relative to objectives on a quarterly basis.

Total Fund Objectives

A. The Board seeks long-term investment returns in excess of the actuarial investment assumption at a level of risk commensurate with the expected levels of returns and consistent with sound and responsible investment practices. The assumed actuarial investment rate is currently set at 7.00%.

B. In addition to meeting the 7.00% nominal return over the long term, the Total Fund return objective is to exceed the annualized total return over the short and intermediate time horizons of the following customized index:

Asset Class	Performance Benchmark	Weight
U.S. Equities	Russell 3000 Index	40%
International Equities	MSCI ACWI ex U.S. Index	20%
Fixed Income	Barclays U.S. Universal Index	25%
Real Estate	NCREIF Index	5%
Alternative Investments		10%
Private Equity	Cambridge Private Equity Index	
Hedge Funds	LIBOR 1 MONTH INDEX	

This policy will allow the Investment Committee to compare Total Fund performance relative to the strategic asset allocation policy.

STRATEGIC ASSET ALLOCATION POLICY

Over the long term, asset allocation policy will be 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. It was based on the September 30, 2001 valuation of the Teachers, Police Officers and Firefighters Retirement Funds and performance through September 30, 2002. The asset liability model was updated in July 2005. In designing the 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%
Alternative Investments	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.

Fund Segment	**Index**	**Gross Alpha Target**	**Realized Tracking Error Target**
U.S. Equities - Russell 3000 Index			
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	Russell 1000 Value	197 basis points	7.0%
Stocks Plus	S&P 500	Outperform	
Mid Cap Growth	Russell Midcap Growth	215 basis points	10.0%
Mid Cap Value	Russell Midcap Value	250 basis points	9.0%
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 - MSCI ACWI ex US Index			
International Growth	MSCI EAFE Growth	250 basis points	9.0%
International Value	MSCI EAFE Value	200 basis points	6.0%
Non US Enhanced Index	MSCI Sudan Free ACWI ex US	90 basis points	1.25-1.50%
Emerging Markets Fund	MSCI EMF	Outperform	

Fixed Income - Barclays U.S. Universal Index

Core Plus I	Barclays U.S. Universal	95 basis points	1.5%
Core Plus II	Barclays U.S. Universal	105 basis points	1.5%
Infrastructure		CPI+500 basis points	

Real Estate – NCREIF

REIT Fund	Wilshire RESI	Outperform

Real Estate

The total net return of the real estate segment is a blend of the returns of the NCREIF NPI (80%) and Wilshire RESI (20%). The return objective is to exceed the blended benchmark on a Total Net Return over rolling five year periods. The private portion of the segment is designed to exceed the NCREIF NPI benchmark +150 basis points on a Total Gross Return over rolling five year periods and the public portion is expected to exceed the Wilshire RESI benchmark on a Total Net Return over five year rolling periods.

Cash – Citigroup 3 Month T Bills

Alternatives:

Private Equity

The private equity segment of the investment program seeks to earn an internal rate of return greater than the ten year annualized return of the Russell 3000 Index plus 500 basis points.

Hedge Fund

The multi-strategy hedge fund is a diversified collection of alpha strategies which seek to deliver a high information ratio from active management at a low correlation to markets and other active managers. The Pure Alpha Fund targets a 12% gross annual value added with 12% annual tracking error. The hedge fund segment is expected to outperform the return of the one-month LIBOR.

WATCH LIST

I. Policy Objectives and Principles

The Watch List Policy shall apply to all of the public markets managers of the District of Columbia Retirement Board ("DCRB") who have at least a one-year track record and whose performance is not a result of the market environment.

DCRB takes a comprehensive approach to a manager's performance. DCRB recognizes that maintaining punitive triggers based solely on strict quantitative or qualitative factors can be an evaluation of past rather than future potential. A more enlightened evaluation process aims to incorporate past experience with a forward looking analysis that examines the relevant skill of a manager.

The Watch List is a means for providing the Investment Committee with additional information about a manager. A Watch List Report will be presented to the Investment Committee at each meeting where the performance of the investment program is reviewed on a quarterly basis.

II. Qualitative Assessment

The qualitative aspect of each manager relationship will be monitored on an ongoing basis by the staff and consultant. A significant and potentially adverse event related to, but not limited to, any of the following qualitative issues or events may either initiate a recommendation to place the manager on the Watch List or may initiate a Comprehensive Review, depending on the impact of the event or issue. Qualitative assessments will focus on :

- Departure of key personnel
- Significant loss of clients or assets under management
- Financial instability
- Significant change in organizational or ownership structure
- Consultant downgrade below skill rating 2 (where 1 is the highest and 4 is the lowest)
- Investment strategy or style deviation
- Apparent breach in ethical behavior or integrity
- Significant and persistent lack of responsiveness to requests
- Contravention of any term or condition of the Investment Management Agreement not corrected within 30 days of the breach
- Chronic violations of the investment guidelines
- Extraordinary regulatory action or other proceeding affecting the manager's ability to perform its duties under the contract
- Any issue believed to undermine the DCRB's confidence in the manager.

III. Quantitative Assessment

In order to evaluate manager skill, rolling assessments of excess returns of public market managers will be evaluated quarterly. DCRB reserves the right under this policy to pursue any course of action in response to absolute, relative, historic or perceived future investment performance. Notwithstanding the foregoing, the following measurement criteria will generally apply to quantitative assessments of manager performance.

- 1-year net excess return versus the Investment Manager's benchmark falls outside the 90th percentile confidence level or gross return ranks in the bottom quartile of manager peer universe.
- 3-year net excess return versus the Investment Manager's benchmark falls outside the 67th percentile confidence level and gross return ranks below the median.
- 5-year net excess return is less than the Investment Manager's net alpha target.

IV. Courses of Action

- Due Diligence Review

Depending on the significance of the issue or event, the staff and consultant will recommend to the Investment Committee an appropriate course of action. The Investment Committee will continue to monitor the situation and the staff and consultant will regularly report on any developments.

- Watch List

A manager will be placed on the Watch List as a result of a significant and potentially adverse development. Being placed on the Watch List communicates to the manager DCRB's concern about a particular situation. Staff and/or consultant will meet with the manager within 90 days of being placed on the Watch List to discuss the situation and the steps needed to be taken to resolve the issue to DCRB's satisfaction. A manager will remain on the Watch List for a specified length of time or until the issue is resolved. If the issue has not been resolved by the expiration of the specified time period, a Comprehensive Review may be initiated.

- Comprehensive Review

A Comprehensive Review will be undertaken as a result of serious underperformance relative to its benchmark or as a result of a significant and adverse change to the manager's organization, personnel or investment process. These categories of events cause the staff and consultant to seriously question the manager's ability to achieve their investment objectives. A Comprehensive Review is a thorough, in-depth due diligence effort. The review must be completed within 90 days of initiation. The purpose of a Comprehensive Review is to recommend retention or termination of the manager to the Investment Committee.

MANAGER SELECTION PROCESS

The Board's selection of investment advisers, actuaries, auditors, and other service providers represent an exercise of its discretionary authority or control with respect to the management and administration of the Funds within the meaning of Section 1-711 of the Reform Act. The selection process is designed to avoid (i) self-dealing, (ii) conflicts of interest and (ii) other improper influences, all of which are incorporated in the prohibited transactions provisions of the Reform Act and which must be fully disclosed in an annual report of the Board.

The Investment Committee must first determine when it is prudent to engage in a manager search. After requisite training conducted by the investment consultant and/or Investment staff, the Board will authorize a search for an investment manager. The Investment staff will develop a set of quantitative and qualitative criteria for each particular search. The consulting team and manager research group will screen their database to identify candidates which meet the criteria. The Investment staff will conduct an independent quantitative screening analysis which may produce additional candidates.

The Investment Committee Chair, in consultation with the Investment staff and consultant, will recommend an objective process to narrow the long list of qualifying candidates to a list of 6-8 semi-finalist candidates or 2-4 finalists. The consultant reviews the qualifying candidate list with the Investment Committee, who may select the finalists for interview presentations. Concurrently, the Board imposes a particular provision of the Conflict of Interest Guidelines, the "Lock-Out Rule", which is intended to protect the integrity of the search and selection process by prohibiting Board members and senior staff from having any non-official contact with the candidates. Selection of a primary and secondary candidate is subject to final due diligence and contract negotiations. If the Legal staff is unable to reach an agreement with the primary candidate, the staff will commence discussions with the secondary candidate. In the event the board has not entered into a contractual relationship with a traditional manager (excluding alternative investments) who has been selected by the Board within four (4) months following the due diligence visit, then the Board's staff shall report such development to the Investment Committee who may decide to rescind such selection.

As a number of factors are necessarily considered when selecting an investment manager, the Board is under no obligation to select the manager that merely offers the lowest bid, although compensation must be reasonable in light of the services provided.

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 and international equity securities.

Investment in domestic 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, domestic and foreign 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, high yield, emerging market debt obligations and other permissible derivative instruments.

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.

Real Estate
Real estate will focus on core to value-added commingled real estate vehicles (80%), complemented with a portfolio of REITs or real estate related securities (20%). Core investments will be fully-leased, multi-tenant properties in major metropolitan markets acquired with low to moderate (less than 50% loan-to-value) leverage. Value-added investments will consist of multi-tenant properties in major metropolitan markets that have some leasing or repositioning risk and may also use more leverage (60% to 75% loan-to-value).

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.

4. Stocks, securities or other obligations of companies which do business with the Government of Sudan and currently appear on the Sudan Scrutinized Company List.

5. Stocks, securities or other obligations of companies which do business with the Government of Iran.

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.

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