

**EMPLOYEES' RETIREMENT SYSTEM
OF THE CITY OF BALTIMORE**

PROCEDURE FOR HIRING INVESTMENT MANAGERS

Adopted March 21, 1996. Amended July 19, 2001, November 17, 2005, April 17, 2008, November --, 2014

In accordance with Article 22, Section 7(g) of the Baltimore City Code, the Board of Trustees ("Board") of the Employees' Retirement System of the City of Baltimore may hire and appoint such persons or entities (including corporate fiduciaries) as investment managers to assist in managing the assets of the Employees' and Elected Officials' Retirement Systems (respectively, the "Retirement System"), and the OPEB Trust. Procedures for the hiring of investment managers shall be as follows:

1. Upon proper deliberation and motion, the Board shall direct the Investment Adviser to recommend to the Investment Committee relevant criteria to be used for the purpose of hiring one or more investment managers to manage a certain amount or percentage of a proposed or existing asset classification ("Assets"). Such criteria shall define the role of the proposed investment manager by setting minimum standards for the position and shall be formulated by the Investment Adviser taking into account the particular needs of the Retirement System and the OPEB Trust. The Investment Adviser shall submit his or her recommended criteria to the Investment Committee for deliberation and recommendation. Upon due discussion, the Investment Committee shall recommend investment manager search criteria for adoption by the Board.

For the placement of additional assets for investment with an existing investment management firm, the Board will not be required to have the Investment Adviser prepare search criteria and to conduct a search for an investment management firm provided that: (1) the investment management firm is not on the Board's manager watch list, (2) the additional assets are invested with the firm in an asset class identical or substantially similar to its existing mandate, and (3) the Investment Adviser concurs with the placement of additional assets with the investment management firm. For purposes of this paragraph, "investment management firm" shall include an investment management firm of a commingled investment vehicle held by the Retirement System which is forming a new investment vehicle, or, an investment management firm of a separate account of the Retirement System.

2. Upon proper deliberation and motion, the Board shall direct the Investment Adviser to generate for the Investment Committee a list of no more than a specified number of potential investment managers to manage the Assets, using the criteria approved and adopted by the Board. Prior to placing a given candidate on the list submitted to the Investment Committee, the Investment Adviser shall conduct a thorough examination of such candidate, which shall include, but not be limited to, the following elements, to the extent applicable:

- I. Quantitative Analysis
 - (a) Performance History
 - Quality of returns
 - Relevant benchmarks
 - Appropriate peer groups
 - Annual, cumulative and rolling time periods
 - (b) Portfolio Analysis
 - Sector/country weightings
 - Issue characteristics
 - market cap
 - p/e ratio
 - eps growth
 - price/book
 - debt/equity
 - beta
 - yield
 - maturity
 - duration
 - quality
 - (c) Risk Profile
 - Risk/return analysis
 - Standard deviation
 - Beta
 - Sector/country weightings
 - Issue weightings
 - Currency management
- II. Qualitative Analysis
 - (a) Due diligence
 - ADV Form(s)
 - Proxy voting policy and history
 - References from representative sampling of existing and lost accounts (applicable only to candidates who will be interviewed)
 - (b) Personnel
 - Organization management
 - Prior firm affiliation
 - Education
 - (c) Investment process
 - (d) Research procedures and capabilities
 - (e) Decision-making and implementation of process
 - (f) Business plan

The Investment Adviser shall submit a list of candidates to the Investment Committee, which shall proceed to review the quantitative and qualitative information on the candidates recommended by the Investment Adviser. In its discretion, the Investment Committee may interview two or more candidates from the list submitted by the Investment Adviser prior to making its recommendation to the Board. No candidate for investment manager may be considered by the Investment Committee without such candidate first having been screened, researched and recommended by the Investment Adviser.

3. After screening and/or interviewing candidates for investment manager from the list submitted by the Investment Adviser and, after due deliberation, the Investment Committee shall recommend to the Board, by a majority vote, no more than a total of six candidates for investment manager, from the list, for the consideration of the Board. No candidate for investment manager may be interviewed by the Board without first having been recommended by a majority vote of the Investment Committee.

4. The Board shall interview each candidate recommended by the Investment Committee and, after due deliberation, shall choose one or more candidates, as needed, to serve as investment manager for the Assets subject to satisfactory fee negotiation, necessary due diligence, and signing of an acceptable contract.

5. Upon the selection of one or more candidates for investment manager by the Board of Trustees, the Retirement Systems' Executive Director or Deputy Director shall proceed to complete certain administrative steps prior to authorizing the chosen investment manager to manage the assets, with, as necessary, the assistance of Legal Affairs. These steps should include but not be limited to:

- (a) Negotiate fees and receive written guarantee that these fees are no higher than those charged for any other client of similar size and objectives;
- (b) Transmit Investment Guidelines for the account and receive a signed acceptance copy; and
- (c) Assemble a written contract for review and approval by the Board and the Board of Estimates.

6. Each member of the Board, the Retirement System's Executive Director, Deputy Director, General Counsel and Senior Counsel, and the Investment Adviser shall complete a certificate of independence, substantially in the form attached, certifying that he or she has no relationship to any candidate under review, which relationship would directly or indirectly affect such person's independence with regard to the search. Each investment management firm that is to be interviewed by the Board shall complete a certificate of independence, substantially in the form attached, certifying that the firm and its employees have no relationship to any member of the Board, the Retirement Systems' Executive Director, Deputy Director, General Counsel or Senior Counsel, or the Investment Adviser, which relationship would affect such individual's independence with regard to the search. Determination as to impairment of independence shall be governed by section 5 of Article 22 of the Baltimore City Code, the City of Baltimore's Ethics Law, Article 8 of the Baltimore City Code, as amended; to the extent that it may apply to the Board, ERISA fiduciary standards, as interpreted by applicable case law. Decisions as to any questions concerning disqualification of a Board member for a particular meeting shall be made by the City Solicitor, the legal advisor to the Board pursuant to Article 22, Section 5(k) or, in the City Solicitor's discretion, by General Counsel to the Board.

7. In the event that key personnel responsible for the management of the Retirement Systems' or OPEB Trust's account leave an investment management firm, the Investment Adviser will conduct a thorough re-examination of such investment management firm using the appropriate quantitative and qualitative elements listed in Section 2 above, so that the Investment Committee may recommend a course of action. After conducting such re-examination, the Investment Adviser shall submit a recommendation to the Investment Committee, which, upon due discussion and deliberation, shall submit to the Board its recommendation.

8. The Investment Committee, with the assistance of the Executive Director/CIO and the Investment Adviser, will be responsible for monitoring investment managers. Monitoring should take into account the amount invested with the investment manager and the relative risk of the investment. Monitoring may include, if appropriate, any or all of the following elements.

a. The Retirement System staff will promptly report to the Executive Director/CIO, and the Executive Director/CIO will promptly report to the Board, any failure of an investment manager to comply with the terms of the contract between the investment manager and the Retirement System.

b. The Executive Director/CIO and Board members will promptly review any reports provided by investment managers.

c. The Investment Committee, or his or her delegate, may in its discretion conduct a periodic review of an investment manager, taking into account investment performance, staff satisfaction, fee competitiveness, personnel turnover, timeliness, quality of reporting, contract compliance, and any changes in policies. Such periodic review may include site visits by members of the Investment Committee, the Executive Director/CIO, or the Investment Adviser, or the Investment Committee may require that the investment manager attend a meeting of the Board to address