EMPLOYEE'S RETIREMENT SYSTEM

OF THE CITY OF BALTIMORE

ALTERNATIVE INVESTMENT POLICY

I. GENERAL

The Employees' Retirement System of the City of Baltimore ("the System") was established to provide retirement, disability and death benefits to City of Baltimore employees and their designated beneficiaries. To ensure that the assets of the Systems are managed prudently, and consistent with the retirement objectives of the Systems' members, the Board of Trustees of the System ("the Board") periodically reviews the asset management and actuarial characteristics of the System. To the extent that asset management policies developed by the Board result in an improvement of investment performance results, present liabilities will be adequately funded, City contributions may be reduced, and excess interest will form a basis for future benefits.

II. GENERAL INVESTMENT OBJECTIVES

The primary investment objectives of the System are set forth below. It is recognized that maximizing anyone objective may compromise the achievement of other objectives. For example, maximizing liquidity may reduce investment return; seeking maximum investment return may subject capital preservation to higher risk. Accordingly, the investment objectives are given in descending order of priority:

1. To preserve the capital value of the System adjusted for inflation.

2. To ensure adequate liquidity to meet benefit liabilities as they fall due.

3. To meet or exceed actuarial interest rate assumptions.

4. Without unduly jeopardizing the above objectives, to exceed the investment return objectives by the astute investment management of funds.

III. ALTERNATIVE INVESTMENT DEFINITION

Definition

There are several types of investment programs that plan sponsors consider as alternative or non-traditional investments. Key groupings of the main strategies include:

1. Private Equity (e.g., venture capital, acquisition/buyouts, restructuring, subordinated debt, special situations, etc.)

2. Natural Resources (e.g., oil and gas, agriculture, etc.)

3. Managed Futures/Commodities (e.g., active, indexed, long-only, and long/short.)

4. Hedge Funds & Portfolio Overlay (e.g., macro, long/short, event-driven, market neutral, etc.)

5. Infrastructure (e.g., transportation, utilities, communications, midstream & contract energy, social infrastructure, etc.)

Risk Factors

Key risk factors in considering these investment strategies are that alternative investments:
1. are more complex than traditional assets;
2. may employ leverage;
3. may use derivative securities;
4. may be illiquid;
5. Managers generally have short track records; and,
6. are more labor intensive for plan sponsors to implement and administer.
7. may have less transparency than traditional investment managers.

Reward Factors

The Board has determined that, over the long term, inclusion of private equity and debt investments (herein after referred to collectively as "private equity") would enhance the System's expected portfolio investment characteristics. Specifically, the following key reward factors are the basis of the Board's determination:

1. the possibility of enhanced rates of return over publicly traded securities, and
2. returns that have low correlation with those associated with other major asset classes,

Objectives

The Board anticipates that the use of private equity investments will tend to increase the portfolio's overall long-term expected real return, and reduce year-to-year portfolio volatility. These characteristics are compatible with the above general System objectives.

The System's alternative investment policy will define and limit its alternative investment allocation to the private equity category. As such the remainder of this Alternative Investment Policy will refer solely to the System's investment in private equity assets.

IV. PRIVATE EQUITY DEFINITION

Private equity investments involve the privately negotiated purchase of unlisted, illiquid common and preferred stock, and to a lesser degree, subordinated and senior debt of companies that are in most instances privately held. Investments in company private securities may be made only through professionally managed institutional blind pool limited partnership or limited liability corporation vehicles. Direct investments (the purchasing of private placements by the System directly from companies) are absolutely prohibited. The portfolio will be prudently diversified having broad exposure to all key private corporate finance strategies, e.g., venture capital, acquisition, special situations, etc., with allocations to the various strategies diversified in a manner consistent with institutional private equity programs generally. The private equity strategies to be pursued are further described in Appendix A.

V. ALLOCATION OF ASSETS

The private equity program is targeted to be 10% with a range of + / -3% of total managed fund assets of the System at market value. The private equity class is considered as an equity-type investment with a high expected return and restricted liquidity. The Board recognizes that it will be necessary to make capital commitments in excess of the target allocation in order to achieve and maintain a 10% net asset value. The Board will work with its consultant and managers to determine appropriate commitment amounts to achieve and maintain a fully-funded status.

An important implementation goal is to spread out the timing of new commitments so as to avoid an undue concentration of commitments in anyone fiscal year. Over the long-term it is expected that approximately equal amounts of new funding will be committed each fiscal year to gamer the benefits of time diversification.

VI. INVESTMENT FORMAT AND VEHICLES

The System will invest in private equity exclusively through institutional commingled private equity fund-of-funds vehicles managed by Registered Investment Advisors under the Investment Advisers Act of 1940. The manager, as a fiduciary, will conduct prudent expert due diligence on all of the fund-of-funds' underlying partnership investments. The manager will have discretion with respect to the management of the fund-of-funds investment program, operating within the parameters delineated in the commingled fund's legal documentation. Investment by the System directly in stand-alone blind pool private limited partnerships, without the intermediation of a professionally managed fund-of-funds vehicle, is expressly prohibited.

The management structure of the System's private equity portfolio will be as follows:

Mandate	**% of Allocation**
Diversified Broad Market "Core" Fund-of-Funds	66% to 75%
Specialty Niche, or Complimentary Fund-of-Funds and/or Direct Funds	33% to 25%

1. Broad Market Core Allocation

   The broad market private equity fund-of-funds allocation will pursue a proven investment strategy, investing predominantly in proven "top-tier" private equity partnerships. Key characteristics associated with the allocation will be "proof of principal" regarding the fund-of-funds manager's historical investment success, strategy diversification and access to recognized top-tier partnerships.

   The broad market investment portion of the private equity portfolio, in total, will be diversified by industry, by number of transactions, and by stage of company maturity. In all cases, the System would be a long-term investor, taking advantage of private negotiation and the liquidity premium to achieve superior returns with lower risk through diversification.

2. Niche or Specialty Mandate(s)

   The niche or specialty fund-of-funds or direct funds can be any other provider that does not meet stringent tenure requirements or employ a broad-market diversification mandate. Examples would be fund-of-funds managers or direct funds that have shorter track records, or that are seeking to invest in first time partnerships, or which invest in partnerships pursuing investments in minority- and women-owned enterprises.

The niche or specialty fund-of-funds or direct funds portion of the private equity portfolio, in total, will be diversified by industry and by number of transactions, however, likely to a lesser degree than the broad market mandate. In all cases, the System would be a long-term investor, taking advantage of private negotiation and the liquidity premium to achieve superior returns with lower risk through diversification.

VII. PERFORMANCE OBJECTIVES

Due to the inevitability of short-term market fluctuations that may cause variations in the investment performance, it is intended that the performance objectives outlined below will be achieved by the investment managers over the life of the private equity program, generally 12 years. However, the Board reserves the right to evaluate the funds interim performance. Annual performance will be evaluated to test progress toward attainment of these longer-term goals. It is understood that there are likely to be short-term periods during which performance deviates from expectations. Minimum expectations are as follows:

1. It is expected that the private equity program will over rolling 5-year periods provide net of fee returns in excess of those available in the public markets. The nominal rate-of-return for the private equity program will be calculated as a dollar-weighted, internal rate of return (IRR), net of all fees and expenses. The rate of return will also be calculated on a time-weighted basis.

2. The fund's IRR performance will also be benchmarked against peer groups in the Venture Economics, Inc. Pooled Average Vintage Year Private Equity Database. These return comparisons will be net of underlying partnership fees and expenses, but gross of the fund-of-funds manager's expenses. It is expected that the manager will attain performance rankings consistent with the above-median levels of return evidenced in the database.

Attainment of these objectives does not guarantee continued employment by the Board nor does failure to achieve these guidelines ensure dismissal. Managers serve at the discretion of the Board.

VIII. RISK MANAGEMENT

1. Risk with Regard to Individual Investments

   In private equity investing there is the risk of sustaining a loss on any of the individual investments. It is the Board's expectation that, while specific investments may incur losses of all or part of capital invested, a diversified portfolio of holdings will produce a positive rate of return in the expected range set forth above.

2. Risk with Regard to the Overall Private Equity Portfolio

   The risk inherent in private equity investing through diversification of its holding as described will be addressed in the next section.

IX. DIVERSIFICATION

The individual alternative investments as well as the overall portfolio will be evaluated by the prudent professional standard. To reduce risk, a prudent level of diversification should be maintained. The portfolio will be diversified in a manner consistent with other professionally managed institutional private equity portfolios. The following types of diversification should be maintained as part of a portfolio.

Manager and investment vehicles -The portfolio structure is designed to provide a minimum of at least two fund-of-funds managers or at least ten investments in a direct fund that will invest in diversified portfolios of investment holdings achieving all of the following measures:

1. Industry Sectors -Private investment should be diversified among industry groups for the diversified broad market “core” fund-of-funds;

2. Form of investment -Private investment should be diversified throughout various forms and categories of investment;

3. Geographical -Geographical diversification in investment selection, though this is a secondary issue; and

4. Time -The fund-of-fund and direct fund managers will endeavor to invest in a consistent manner over time, unless a specific sub-market is deemed to be extremely overvalued.

X. MANAGERIINVESTMENT SEARCH AND EVALUATION

The Board will work with its investment consultant to draft appropriate screening criteria for fund of-funds searches, specific to the broad market or specialty mandates. Evaluation criteria will include management organization, investment tenure and experience, investment strategy, assets under management, client base, access to recognized top-tier groups, performance history, and vehicle fees and structure.

The investment consultant will then conduct a search and evaluation process. As part of the search and evaluation process, the investment consultant will conduct adequate due diligence to ensure that any fund-of-funds investment managers have appropriate personnel and procedures to prudently analyze and fund private equity investments. The consultant will provide the Board with evaluation materials on finalist firms and bring before the qualified candidates for the Board's review. This process will be similar in form and process to the System's usual equity and fixed income manager searches.

XI. MONITORING AND REPORTING

Each manager should note that the Systems operate on a fiscal year basis, from July 1^{st} through June 30^{th}.

1. Monitoring

The private equity fund-of-funds and direct fund managers will monitor and administer the underlying limited partnership investments in a prudent manner, in part, by:

A. administering capital calls and distribution,

B. employing suitable financial monitoring and reporting systems,

C. maintaining an understanding of the limited partnership's holdings and activities, including periodic discussions with the general partners and attending partnership investor meetings as appropriate for the fund-of-funds manager,

D. attending to partnership amendments or other matters related to the underlying partnerships in the perceived best interest of the investors for the fund-of-funds manager,

E. liquidating stock distributions, and

F. except as provided for in liquidating distributions, providing a cash-to-cash service to the System.

2. Reporting

Reporting requirements will be governed by the fund-of-funds', direct funds or stand-alone partnerships' legal documentation, which at a minimum will provide for quarterly unaudited financial statements and other relevant investment holdings-related exhibits, and annual audited financial statements and relevant investment holdings-related exhibits. At the time of reviewing any investment vehicles' legal documents the System's staff and legal counsel should negotiate by incorporation in the agreement, or by side-letter, the System's specific reporting requirements, which may include:

- a listing of assets with historical cost and market valuations by security and in total
- holdings by sector segmentations
- performance results for the month, quarter-to-date, fiscal year-to-date and since inception
- dealings with minority and women -owned businesses
- firm composition specifying majority, minority, and women personnel by management category
- changes in personnel or firm composition (specifying changes in minority/women personnel)
- investor purchases and sales
- major changes in market condition

It is expected that the fund-of-funds and direct funds investment managers will meet with the Board as reasonably required and at least annually.

In a month when a manager is scheduled to personally appear before the Board, the written quarterly reports are to be mailed directly to the members of the Board of Trustees, the System's Executive Director, Deputy Executive Director, and Accounting Manager at least one week in advance of the appearance date. **Ten** additional copies of the reports should also be mailed to the System one-week prior to the appearance date. If the additional copies cannot be delivered in this manner, then the reports can be personally delivered on the appearance date. The additional copies are required only for review meetings with the Boards and are not required any other time.

XII. GUIDELINES CONSISTENT WITH INVESTMENT DOCUMENTATION

By signing this Alternative Investment Policy, the Investment Manager concurs that while the private equity investments will be managed with full discretion under the operation of the vehicles' legal documents, the Investment Manager warrants that there are no conflicts between the vehicles' legal documents and with the provisions of this Policy.

XIII. AMENDMENTS

If at any time these objectives cannot be met, or these guidelines constrict performance, the Board should be notified in writing. Investment Managers are encouraged to suggest changes to these guidelines at any time.

XIV. ACCEPTANCE

By signing and continuing acceptance of this Alternative Investment Policy, the Investment Manager concurs with the provisions of this document.

Accepted by:

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Name & Title

________________________ ________________

Firm Date

APPENDIX A

ELIGIBLE PRIVATE EQUITY INVESTMENTS

The following private equity strategies and investment types will be considered eligible for the System's portfolio. The fund-of-funds managers will endeavor to select partnerships that represent the strategies in the appropriate amounts and diversity.

1. **Venture Capital -Early-Stage:** Seed or start-up equity investments in private companies.

2. **Venture Capital -Later-Stage:** Investments in more mature companies (e.g., with developed products, revenues, and in many instances profitable) to provide funding for growth and expansion.

3. **Venture Capital -Multi-Stage**: Investments in venture capital companies at various stages of company development, including early-, late-and any other interim stages of development.

4. **Buyouts/Acquisition**: Partnerships which provide funding to acquire majority or controlling interests in a business or product lines from either a public or private company.

5. **Restructuring/Recovery**: Investments made in distressed or poorly performing companies, with the intent of initiating a recovery via financial restructuring or the introduction of management expertise. Partnership's investments may include debt and/or equity securities.

6. **Special Situations**: Partnerships with investment strategies that have gained an institutional following, but where sporadic opportunities do not justify a separate long-term strategic allocation. Categories includes partnerships which make strategic block investments, have very broad mandates (such as merchant banking funds), or focus on specific industries or which seek to exploit opportunities created by changing industry trends or governmental regulations.

7. **Subordinated Debt:** Partnerships that invest in unsecured or junior obligations in financings. These generally take the form of subordinated debentures or preferred stock. They typically earn a current coupon or dividend and have warrants on common stock or conversion features.

8. **Project Finance**: Partnerships that invest in industrial leveraged or unleveraged lease or project financings. These can include participation in equity, mezzanine, or senior debt investments. Investments should be made after the development phase, as part of the project's permanent financing, when projects are going operational.

9. **Global/International:** Partnerships that make venture capital, later-stage, LBO or other private finance investments in companies based abroad. Some partnerships in this category may make investments in companies based both domestically and abroad.

10. **Fund-of-Funds:** Blind pool partnerships that evaluate, select and monitor investments in other limited partnership investments.

11. **Other**: Partnerships that invest in opportunistic real estate, publicly-traded securities such as post-venture equities, and the purchase of secondary partnership interests are also allowed.