EMPLOYEES' RETIREMENT SYSTEM

AND ELECTED OFFICIALS' RETIREMENT SYSTEM

OF THE CITY OF BALTIMORE

INVESTMENT OBJECTIVES AND GUIDELINES

SHORT-TERM INVESTMENT

I. GENERAL

This document addresses the investment objectives and guidelines specific to International Equity investments. All general guidelines outlined in the Statement of Investment Objectives and Policies for the Board of Trustees of the Employees' Retirement System and the Elected Officials Retirement System of the City of Baltimore apply to these investments unless there is an overriding statement contained herein.

II. PERFORMANCE OBJECTIVES

The Systems' assets are expected to participate in rising markets. In declining markets defensive action is expected, to an even greater degree. The Board understands that such goals demand participation in the relevant fixed income markets used for investment, but with short-term reserves always an alternative. The Investment Manager's judgment as to the extent of offensive or defensive action in these periods is of major importance. Performance comparisons will be made against relevant market indices for reference purposes. In an effort to assure consistency with specific goals of the Systems, the Board has established the following goal for Short-Term Investment Fund ("STIF") managers:

A. STIF

To earn total returns over a three-year period equal to the 90-day T-Bill Index, net of fees.

B. Super STIF

To earn total returns over a three-year period in excess of the 90-day T-Bill Index, plus .50%, net of fees.

C. Super STIF with Cash Equitization

To earn total returns over a three-year period in excess of the 90-day T-Bill Index, plus 2.00%, net of fees.

III. ASSET MIX

Enhanced Super STIF managers with a cash equitization mandate manage a portion of the Systems' equity assets in S&P 500 future contracts. Under most conditions, it is expected that no more than 75% of the equity cash portion of the STIF portfolio will be equitized. However, the Enhanced Super STIF Investment Manager will retain discretion of the asset mix to take defensive action when the Investment Manager believes adverse market conditions prevail.

IV. PORTFOLIO DEFINITION

The Systems must comply with investment restrictions imposed by the laws of the City of Baltimore and any other state or federal laws dealing with investment of public retirement plan assets. Investment Managers are expected to familiarize themselves with these laws. Within that framework and within the following limitations, the Investment Manager has the discretion to make portfolio changes to accomplish the stated objectives. Unless otherwise noted, all percentages stated in this "Portfolio Definition" section are to be applied to the market value of the securities tested, not their cost.

- All subsequent references in these guidelines should be read as not applying to issues or issuers of the U.S. Government or its agencies, or those fully guaranteed by the U.S. Government.

- Not more than 25% of the portfolio's assets at market value may be invested in any one industry.

- At no time may the portfolio hold more than 5% of the par value of any one fixed income issue, or have 8% of its assets invested in the securities of any corporation (including cash equivalents).

A. STIF MANAGERS

STIF Managers with no Super STIF or cash equitization mandate may invest in a separate account or a commingled fund comprised of, and limited to, one or more of the following: securities with maturities of less than 1 year issued by the U.S. Government and its agencies, certificates of deposit, purchase agreements with major money center banks who are members of the Federal Reserve System and insured by the FDIC, and commercial paper rated A-1 by Standard & Poor's and P-1 by Moody's (or equivalent). No single issue used in this section may exceed 5% of the portfolio at market value at any time (excluding U.S. Government securities). The maximum average maturity of the portfolio must be 90 days or less, and no issue with a maturity of greater than 270 days may be held.

B. SUPER STIF SECURITIES

Super STIF Managers may invest in a separate account comprised of, and limited to, one or more of the following:

1. Allowable Instruments and Credit Quality

   a. Instruments issued or fully guaranteed by the U.S. Government, Federal agencies, sponsored agencies or sponsored corporations

   b. Instruments issued by domestic corporations, including notes, floating rate notes rated "Aa3" or "A" or better at time of purchase by Moody's Investors Service or Standard & Poor's, respectively. If the domestic corporation has a senior debt rating of "Aa3" or "A" or better, the issuer's commercial paper must be rated one of the two highest ratings for short-term debt obligations given by two Nationally Recognized Security Rating Organizations (NRSRO's). If the issuer does not have a senior debt rating, the issuer's commercial paper must meet the aforementioned commercial paper standard or have a letter of credit drawn on a guarantor meeting the above guidelines.

   c. Obligations of domestic banks, including banker's acceptances, certificates of deposit, time deposits, notes and other debt instruments. A minimum "B" or better rating by Thomson Bank Watch is required. The domestic banks must also be rated at least "Aa3" or "A" by Moody's or Standard & Poor's.

   d. U.S. dollar-denominated instruments issued by sovereigns, sovereign-supported credits, and instruments of foreign banks and corporations. U.S. banks offshore are subject to the quality restrictions of their parent company outlined in "3." above. Foreign corporations must be rated at least "A" by Standard & Poor's or "Aa3" by Moody's. Foreign banks must have a minimum IBCA "B" rating for individual credit and a minimum "2" for legal rating.

e. The following types of Euro issues: Euro CD's, BA's, Time Deposits, bonds and floating rate notes. A minimum "B" or better by Thomson Bank Watch is required or a minimum IBCA "B" rating for individual credit and a minimum "2" for legal rating.

f. Yankee Securities subject to the quality constraints outlined in "4." above.

g. Financial futures and options, to include Treasury Bill, Note, Bond, Eurodollar, and contracts on foreign government securities that meet the standard in "9." and, currency futures for the purpose of hedging, from time-to-time, non-dollar investments.

h. Money market mutual funds and other commingled funds.

i. Non-dollar securities of sovereign credits rated AA and above or judged to be equivalent in rating.

j. Repurchase Agreements are permitted with such government dealers who have and maintain a minimum equity value of $50,000,000 as the investment manager shall, in its discretion, determine from time-to-time. Repurchase Agreements shall be subject to: 102% initial market value collateralization of the loaned amount, collateral market value shall be priced daily and always maintained above 102% of the loaned amount, and custody must be taken by the custodian bank or sub-custodian bank.

k. Asset-backed securities rated AA or above.

l. Split-rated instruments should be classified by the lower of the two ratings, even if the higher of the two ratings meets the guideline requirements.

2. Maturity

The dollar weighted average must not exceed 1.5 years. No instrument with a maturity greater than 3 years is permissible. Floating rate and puttable issues are not subject to the 3-year constraint so long as the interest adjustment of the floaters is tied to an instrument with a maturity of less than 3 years and the puttable bonds can be sold back to the issuer within 3 years.

3. Diversification

a. The manager will maintain prudent diversification across instruments, market sectors, industries and specific issuers.

b. The combined holdings of securities from one issuer should not constitute more than 10% of the Investment Manager's portfolio.

C. CASH EQUITIZATION SECURITIES

Enhanced Super STIF Investment Managers are authorized to invest and reinvest up to 75% of the cash of a System's domestic and foreign equity managers in a Cash Equitization program involving the purchase and sale of futures contracts based on the Standard & Poor's 500 Stock Price Index or other equity index. The principal goal of the Cash Equitization program is to approximate the total return of the selected equity index, and the Investment Manager will not exercise any judgment as to the future direction of the markets. Unless otherwise instructed, the Investment Manager is authorized to use its discretion in the following limited circumstances: (i) determining when to "roll forward" positions in an expiring futures contract; and (ii) in the selection of futures contract maturities when additional funds are allocated to or existing funds are withdrawn from the Cash Equitization program during, or immediately preceding, the expiration month of the relevant futures contract.

D. ABSOLUTE RESTRICTIONS

Investment activity in the following is prohibited:

1. Common and preferred stock.
2. Convertible bonds.
3. Leveraged derivative securities such as Mortgage IOs or POs, inverse floating rate notes, or structured notes where any underlying leveraged risk exists or structured principal reimbursement risk exists. Unleveraged floating rate securities are allowed but interest payments must be linked to indices within the portfolio's scope.
4. Short sales.
5. Margin purchases, except for purchases of futures contracts by Enhanced Super STIF managers.
6. Letter stock, private placements or direct placements (except for section 144a securities to the extent otherwise allowed by this "Portfolio Definition" section).
7. Securities of the investment manager, its parent or subsidiaries, unless securities are part of index.
8. Purchase, participation or other direct interest in gas, oil or other mineral exploration or development program.
9. Real estate, mortgages, shares in publicly-traded and private placement Real Estate Investment Trusts (REITs), or debt of private placement REITs.
10. Securities of companies which do not have at least a ten-year operating history.

V. AMENDMENTS

If at any time these objectives cannot be met, or these guidelines constrict performance, the Boards should be notified in writing. The Investment Manager is encouraged to suggest changes to these guidelines at any time.

VI. ACCEPTANCE

By signing and continuing acceptance of these Investment Objectives and Guidelines, the Investment Manager concurs with the provisions of this document.

Accepted by:

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Name & Title

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Firm

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Date