

**EMPLOYEES' RETIREMENT SYSTEM
AND
ELECTED OFFICIALS' RETIREMENT SYSTEM
OF THE
CITY OF BALTIMORE**

INVESTMENT OBJECTIVES AND GUIDELINES

TACTICAL ASSET ALLOCATION

I. GENERAL

This document addresses the investment objectives and guidelines specific to Tactical Asset Allocation 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 equity and 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 tactical asset allocation managers:

- A.** To achieve above median annual ranking in a comparable, generally accepted universe of discretionary tactical asset allocation managers sufficient to produce superior returns over longer time frames.

The Board recognizes that in some markets this goal may be difficult to meet under the asset allocation, legal and other constraints included herein, and will view under-performance of such goal less critically provided that the following goal is met:

- B.** To earn total returns in excess of the pertinent mix of the S&P 500 Index, and the appropriate Lehman Brothers bond and cash equivalent indices, net of fees, over a three-year period.

III. ASSET MIX

The following asset mix applies to the ERS TAA portfolio only. The EOS TAA portfolio is addressed in the General EOS Investment Objectives and Guidelines statement.

Asset Category	Range		
	Low	Target	High
Fixed Income	0%	35%	100%
Equities	0%	65%	100%

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.

A. Cash Equivalents

With respect to cash equivalents (maturities of one year or under), overall quality and minimal risk guidelines apply. Approved for use are: securities 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).

B. Equity Securities

Tactical Asset Allocation managers are directed to invest exclusively in a portfolio of Russell 3000 Index equity securities which approximately replicates the capitalization weight of the Russell 3000 Index. In addition, Tactical Asset Allocation managers may invest up to 5% of the market value of the Tactical Asset Allocation equity portfolio in Russell 3000 Index futures contracts.

C. Fixed Income Securities

Tactical Asset Allocation managers are directed to invest in the type of fixed income securities which approximately replicate the appropriate Lehman Brothers Aggregate Bond Index to which the respective manager is assigned, and are limited to securities which replicate that Index in terms of credit quality and duration. All securities at time of purchase shall have a Moody's or Standard

& Poor's quality rating of Baa or BBB, respectively, at a minimum.

Tactical Asset Allocation managers also may invest in dollar-denominated foreign securities (Yankees) in approximately the same sector percentage, credit quality and duration as their assigned Lehman Brothers Aggregate Bond Index.

D. Absolute Restrictions

Investment activity in equity securities, fixed income securities, or cash equivalents not expressly mandated by these guidelines is prohibited.

Purchases of equity securities in more than their market capitalization weight in the S&P Index are prohibited.

In addition, fixed income investment activity in the following is prohibited:

1. Short sales.
2. The purchase or sale of security options.
3. Margin purchase or other use of lending or borrowing money.
4. Securities of the investment manager, its parent or subsidiaries.
5. Purchase, participation or other direct interest in gas, oil or other mineral exploration or development program.
6. Real estate, mortgages or Real Estate Investment Trusts (REITs).
7. Securities of companies which do not have at least a ten-year operating history.
8. New purchases of securities of companies listed on the IRRC Tobacco Company list.

V. AMENDMENTS

If at any time these objectives cannot be met, or these guidelines constrict performance, the Board 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:

Name & Title

Firm

Date