

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

DEFENSIVE EQUITIES

I. GENERAL

This document addresses the investment objectives and guidelines specific to Defensive 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 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 the defensive equity managers:

A. U.S. Defensive Equity Managers

1. To earn total returns in excess of 50% S&P 500 Index/50% 91 Day T-Bill Index, as appropriate, for annual periods, net of fees.
2. To earn total returns in excess of the CBOE S&P 500 Putwrite Index, as appropriate, over a three-year period, net of fees.

B. Global Defensive Equity Managers

1. To earn total returns in excess of 50% MSCI World Index/50% 91 Day T-Bill Index, as appropriate, for annual periods, net of fees.
2. To earn total returns in excess of the CBOE S&P 500 Putwrite Index, as appropriate, over a three-year period, net of fees.

II. 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. General

The investment strategy will implement two distinct portfolios:

(1) An option portfolio will write exchange-listed options on market indexes, diversified and non-diversified exchange-traded funds (“ETFs”) consistent with the following underlying security notional exposure allocation:

100% U.S. Equity (e.g. S&P 500 Index)

(2) A collateral portfolio will invest in a diversified portfolio of short-to-intermediate fixed income securities including cash or cash equivalents. Generally, the fixed income portfolio will emphasize securities issued by the U.S. Government and high quality corporate issuers.

Option Portfolio

1. Option exposures are limited to exchange-traded options on market indexes and ETFs.
2. Aggregate equity option notional exposure (strike price multiplied by option contract share commitment) is expected to be 85 - 100% of the collateral portfolio market value.
3. Option contracts will typically be near-the-money (i.e. strike prices will be equal to, below or slightly above the current underlying security’s price).
4. Option contract expiration dates will generally be 7 to 60 days from trade date.
5. 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.

Collateral Portfolio

For purposes of this strategy, fixed-income securities include cash or cash equivalents, debt securities issued or guaranteed by the U.S. Government or by an agency or instrumentality of the U.S. Government and short-term fixed income ETFs. The collateral

portfolio and its investments will be subject to the following limits at the time of purchase:

- Exposure to a single issuer shall not exceed 5% of total assets (excluding the U.S. Government or an agency or instrumentality of the U.S. Government).
- The collateral portfolio may not invest in securities of distressed or bankrupt issuers.
- The weighted average duration of the collateral portfolio is expected to be less than 2.0 years.
- The collateral portfolio may not invest in closed end funds.

B. Cash Equivalents

With respect to cash equivalents (maturities of one year or under), overall quality and minimal risk guidelines apply. Approved for use are: The custodian or sub-custodian bank's Short-term Investment Fund, 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-I by Standard & Poor's and P-I 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).

C. Absolute Restrictions

Investment activity in the following is prohibited:

1. Short sales.
2. Commodities.
3. Distressed or bankrupt issuers.
4. Purchase, participation or other direct interest in gas, oil or other mineral exploration or development program.
5. For the U.S. strategies, foreign securities, except for ADRs and foreign stocks traded in U.S. dollars on U.S. stock exchanges or the U.S. OTC market; all other foreign issues including Eurodollar and Yankee CDs are prohibited.
6. Real estate and mortgages except with regard to Real Estate Investment Trusts (REITs).

IV. 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.

V. 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

Firm

Date