

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

DOMESTIC EQUITIES

I. GENERAL

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

- A. To achieve above-median annual ranking in a comparable, generally accepted universe of discretionary equity 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 2 goals are met:

B. Large Capitalization Equity Managers

1. To earn total returns in excess of the S&P 500 Index, as appropriate, over a three-year period, net of fees.
2. To earn total returns in excess of the Russell 1000 growth or value index, as appropriate, for annual periods, net of fees.

C. All Capitalization Equity Managers

1. To earn total returns in excess of the Russell 3000 Index, as appropriate, over a three-year period, net of fees.
2. To earn total returns in excess of the Russell 3000 Index, as appropriate, for annual periods, net of fees.

D. Middle Capitalization Equity Managers

1. To earn total returns in excess of the S&P 400 Index, as appropriate, over a three-year period, net of fees.
2. To earn total returns in excess of the Russell Midcap growth or value index, as appropriate, for annual periods, net of fees.

E. Small/Mid Capitalization Equity Managers

1. To earn returns in excess of the Russell 2500 Index over a three-year period, net of fees.
2. To earn total returns in excess of the Russell 2500 growth or value index, as appropriate, for annual periods, net of fees.

F. Small Capitalization Equity Managers

1. To earn total returns in excess of the Russell 2000 Index, net of fees, over a three-year period.
2. To earn total returns in excess of the appropriate Russell 2000 growth or value index, as appropriate, for annual periods, net of fees.

G. Low Volatility Equity Managers

1. To earn total returns in excess of the MSCI Low Volatility Equity Index, net of fees, over a three-year period.
2. To earn total returns in excess of the appropriate Russell 3000 growth or value index, as appropriate, for annual periods, net of fees.

III. ASSET MIX

Equity Investment Managers manage a portion of the System's total assets designated for domestic equity exposure. Under most conditions, it is expected that the portfolio will be fully invested in equity securities. However, the Investment Manager will retain discretion of the asset mix to take defensive action when the Investment Manager believes extremely

adverse market conditions prevail. If, as a matter of strategy, the Investment Manager reduces the equity commitment of the portfolio to below 95%, the Investment Manager must provide written notification of such policy to the Executive Director of the Systems.

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. General

1. 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.
2. Exposure to any single economic sector at any time, as defined by GICS (Global Industry Classification Standard) formulated by Standard & Poors and MSCI Barra, is limited to the greater of: 30% or 2X the sector weight in the underlying benchmark based on market value. This imbalance should be remedied over a 90 day period.
3. At no time may the Investment Manager invest more than 8% of the System's portfolio, in the securities of any one corporation.
4. 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.

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. Fixed income securities (maturities of over one year).
2. Short sales.
3. The purchase or sale of security options.
4. Margin purchases or other use of lending or borrowing money.
5. Letter stock, private placements or direct placements.
6. Commodities.
7. Securities of the investment manager, its parent or subsidiaries.
8. Purchase, participation or other direct interest in gas, oil or other mineral exploration or development program.
9. 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.
10. Real estate and mortgages except with regard to Real Estate Investment Trusts (REITs).
11. Securities of companies which do not have at least a five-year operating history, provided, however, that investments may be made in spinoffs of existing companies, even if such spinoffs have no operating history. For Small or Small/Mid-Capitalization Equity Managers, no 5-year history is required, provided that no more than 5% of the market value of the portfolio is in securities with less than a 1-year operating history.

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

Firm

Date