

CITY OF BALTIMORE- OPEB TRUST

INVESTMENT OBJECTIVES AND GUIDELINES

FIXED INCOME

I. GENERAL

This document addresses the investment objectives and guidelines specific to Domestic Fixed Income investments. All general guidelines outlined in the Statement of Investment Objectives and Policies for the Board of Trustees of the City of Baltimore OPEB TRUST apply to these investments unless there is an overriding statement contained herein.

II. PERFORMANCE OBJECTIVES

The Trust's 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 Trust, the Board has established the following goal for the fixed income managers:

A. Active Managers

To achieve above median annual ranking in a comparable, generally accepted universe of discretionary bond 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 the above goal less critically provided that the following goal is met:

- To earn total returns over a three-year period in excess of the appropriate Bloomberg Capital Bond Index, as applicable, net of fees.

B. Passive Managers

To earn total returns over a three-year period equal to the appropriate Bloomberg Capital Bond Index, net of fees.

III. ASSET MIX

Fixed income Investment Managers manage a portion of the Trust's total assets designated for fixed income exposure. Under most conditions, it is expected that the portfolio will be fully invested in non-cash, fixed income securities. However, the Investment Manager will retain discretion of the asset mix to take defensive action when the Investment Manager believes that extremely adverse market conditions prevail.

IV. PORTFOLIO DEFINITION

The Trust 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.

A. General -Applicable Only to Active Managers

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. Not more than 25% of the portfolio's assets at market value may be invested in any one industry.
3. At no time may the portfolio hold more than 5% of its assets of any one fixed income issue.
4. At no time may the portfolio have more than 8% of its assets invested in the securities of any corporation (including cash equivalents).
5. The investment manager shall be a Registered Investment Advisor under the Investment Advisors Act of 1940.

B. Cash Equivalents -Active and Passive Managers

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-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).

C. Fixed Income Securities -Core Active Managers

All securities at time of purchase shall have a Moody's, Standard & Poor's, or Fitch's quality rating of Baa3, BBB-or BBB-, respectively, at a minimum. (If the security is rated by Moody's, S&P and Fitch, the middle rating of the three agencies will govern. In the event the security is rated by two of the agencies, and the third is non-rated, the lower rating of the two agencies will govern. If only one agency assigns a rating, it will govern.) However, the total market values of issues falling in those minimum categories (Baa3, BBB-and BBB-) are not to exceed 10%, or 30% for Intermediate Fixed Income managers, of the total market value of the portfolio at the time of purchase. Section 144a

securities up to 20% of the portfolio market value may be used. As stated above, industry sector concentration is limited to 25% of the total market value. There are no limits on U.S. Government, Agency or Government-guaranteed issues. For Intermediate Fixed Income Managers, the average quality of the portfolio must be AA-rated or higher for Standard & Poor's and Fitch or Aa2-rated or higher for Moody's, and an average maturity of 10 years or less, under all circumstances. For all other Fixed Income Managers, the average quality of the portfolio must be AA-rated or higher for Standard & Poor's and Fitch or Aa2-rated or higher for Moody's, with no average maturity, under all circumstances. The average duration of the portfolio should be within one (1) year of the benchmark.

D. Fixed Income Securities -Core Plus Active Managers

Subject to paragraphs A and B, this paragraph D and paragraph H, it is understood that investments by core-plus active managers may include money-market instruments (subject to the guidelines in paragraph B above relating to cash equivalents), U.S. Treasury and Agency notes and bonds, municipal bonds, corporate securities, Yankee and Euro Bonds, mortgage backed securities (including CMOs and REMICs) asset backed securities, currencies, and emerging market securities, The foregoing list is not intended to be exclusive or to preclude other investments that are consistent with a core-plus strategy.

As stated above, industry sector concentration is limited to 25% of the total market value. There are no limits on U.S. Government, Agency or Government-guaranteed issues. The average quality of the portfolio must be A-rated or higher for Standard & Poor's and Fitch or A2-rated or higher for Moody's using the controlling rating defined under Section C above. The average duration of the portfolio should be within two (2) years of the benchmark.

The following guidelines are investment limitations based on the percent of portfolio market value. Section 144a securities up to 50% of the portfolio market value may be used. Core Plus managers are permitted to invest in "below investment grade" quality bonds up to 10%, non-US issuers (including Yankees and Euros) and non-US dollar-denominated bonds (excluding money market securities and money market futures) up to 25%, bank loans, emerging market debt up to 15%, and Foreign Currency up to 5%. Foreign currency exposure will be based on the absolute net value of all positions (long and short) versus the U.S. dollar. Both long and short foreign currency positions may be held without owning securities denominated in such currencies. Purchases and sales may be transacted for regular or deferred/forward settlement.

E. Fixed Income Securities -Passive Managers

Passive managers are directed to invest in fixed income securities which approximately replicate their assigned Bloomberg Capital Bond Index in terms of sector percentage holdings, credit quality and duration. All securities at time of purchase shall have a Standard & Poor's or Fitch quality rating of BBB-, or a Moody's quality rating of Baa3, at a minimum. Notwithstanding the prohibition against investing in foreign securities set forth below in Item 11 of the "Absolute Restrictions", passive managers may invest in dollar-denominated foreign securities (Yankees) in approximately the same sector percentage, credit quality and duration as their assigned Bloomberg Capital Bond Index.

F. Fixed Income Securities – Short/Intermediate Managers

All securities at time of purchase shall have a Moody's, Standard & Poor's, or Fitch's quality rating of Aa3, AA-, and AA-, respectively, at a minimum. (If the security is rated by Moody's, S&P and Fitch, the middle rating of the three agencies will govern. In the event the security is rated by two of the agencies, and the third is non-rated, the lower rating of the two agencies will govern. If only one agency assigns a rating, it will govern.) However, the total market value of issues falling in those minimum categories (Aa3, AA-, and AA-) is not to exceed 10% of the total market value of the portfolio at the time of purchase. As stated above, industry sector concentration is limited to 25% of the total market value. There are no limits on U.S. Government, Agency or Government-guaranteed issues. The average quality of the portfolio must be AA-rated or higher for Standard & Poor's and Fitch or Aa2-rated or higher for Moody's. Securities which are downgraded below the policy minimum may be held at the manager's discretion for up to 6 months. The average duration of the portfolio will remain in-line with the average duration of the liabilities as may be furnished to the Board of Trustees from time to time by an outside consultant.

G. Absolute Restrictions –Short/Intermediate and Core Active and Passive Managers

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. The purchase or sale of security options.
6. Margin purchases or other use of lending or borrowing money.
7. Letter stock, private placements or direct placements (except for section 144a securities to the extent otherwise allowed by this "Portfolio Definition" section).
8. Commodities.
9. Securities of the investment manager, its parent or subsidiaries.
10. Purchase, participation or other direct interest in gas, oil or other mineral exploration or development program.
11. Foreign securities, except dollar-pay Canadian bonds with a minimum rating of AA, Aa2, or AA by Standard & Poor's, Moody's and Fitch respectively; all other foreign bonds and Eurodollar and Yankee securities are prohibited. (Restriction does not apply to core plus

managers.)

12. Real estate, mortgages, shares in publicly traded and private placement Real Estate Investment Trusts (REITs), or debt of private placement REITs.

13. Securities of companies which do not have at least a ten-year operating history.

H. Absolute Restrictions –Core Plus Active and Passive Managers

Investment activity in the following is prohibited:

1. Common and preferred stock.
2. Convertible bonds.
3. Securities of the investment manager, its parent or subsidiaries.
4. Purchase, participation or other direct interest in gas, oil or other mineral exploration or development program.
5. Mortgage derivatives with greater potential cash flow volatility than underlying mortgage collateral.
6. Short option positions must always be hedged, either with security holdings, cash or cash equivalents, other options, or futures positions.

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 for Board of Trustees consideration.

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