STATEMENT OF INVESTMENT POLICY AND GUIDELINES
For
City of Alexandria Firefighters and Police Officers Pension Plan

I. Statement of Purpose

The investment management of the City of Alexandria Firefighters and Police Officers Pension Plan (the "Plan) shall follow this Statement of Investment Policy and Guidelines as approved , November 11, 2005.

The establishment of this Plan is authorized by City Code Section 2-5-51. Statutory authority for the investment program of this Plan is provided by the Code of Virginia §51.1-803. These Policy and Guidelines apply only to beneficiaries covered under the City of Alexandria Firefighters and Police Officers Pension Plan. This Statement of Investment Policy and Guidelines shall be reviewed annually, but may be amended at any time.

A. Objectives

The Plan has three components: Defined Benefit, Disability and Defined Contribution.

The objective of the Defined Benefit and Disability components is to preserve the actuarial soundness of each Plan in order to meet contractual benefit obligations.

The objective of the Defined Contribution component is to help beneficiaries save for retirement by enabling them to construct portfolios that will achieve an acceptable level of return while minimizing risk through diversification.

B. Fiduciary Standards

In striving to attain these objectives, the Plan will be managed in a manner consistent with fiduciary standards, namely:

1. All transactions shall be in the sole interest of the participants and their beneficiaries, and

2. All investments shall be made with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in an expert like capacity and familiar with such matters would use in conduct of an enterprise of like character and with the same aims, and

3. All entities dealing with the plan are required to disclose conflicts of interest as soon as they become apparent, in writing to the Board or as part of a public meeting when the problem becomes apparent.

The Board must strive to maintain both the reality and the public perception that its decisions are made solely for the benefit of plan members. All entities dealing with the Plan must conduct themselves in a manner worthy of the public trust, keeping in mind that the Plan is subject to public review and evaluation.

Members of the Board and those delegated with investment authority under this Policy, when acting in accordance with the written procedures in this Policy, shall be relieved of personal responsibility and liability in the management of the portfolio.

C. Roles and Responsibilities

All parties serving the Plan at the date of the original adoption of this Statement of Investment Policy and Guidelines have 60 days to be in compliance with its provisions, or to notify the Board in writing as to why they cannot be in compliance.

1. Retirement Board

The Retirement Board (the "Board") has the responsibility of establishing and maintaining policies for all aspects of the Plan including:

- setting of investment policy;
- communicating to plan participants;
- performing asset allocation for the defined benefit and disability components;
- selecting, evaluating and replacing investment professionals for all components.

The Board will meet as often as needed but no less than quarterly. The Board may select other professionals to assist in its duties.

2. Plan Administrator

The City Manager of the City of Alexandria shall act as Plan Administrator (the "Administrator"). The Administrator shall be responsible for administering the Plan in accordance with the Plan Document and applicable law.

The City has delegated the responsibility to the Director of Finance to plan , organize and administer the operations of the Plan under broad policy guidance from the Board and the Administrator. These operations include but are not limited to accounting and claims operation; administration of investments, attorneys, accountants, actuaries, consulting and other contracts; and select investment oversight.

3 Actuary

The Board will select an actuary to perform a valuation of the plan as often as needed but no less than annually.

4. Investment Consultant

The Board may engage an investment consultant. If the Board engages an investment consultant, the investment consultant will report directly to the Board.

The investment consultant will give an independent perspective on the Plan, help select record keepers and investment managers, review asset allocation, and provide investment performance measurement.

The investment consultant is expected to attend meetings of the Board as needed but no less than quarterly, and to perform asset allocation studies as needed but no less than once every three years.

The investment consultant will acknowledge in writing that he/she is a fiduciary of the plan relative to the services it provides.

5. Custodian

The Custodian will hold all cash and securities or evidence thereof. The Custodian will be responsible for maintaining records, providing fund accounting on a trade date basis, performance reporting, and other services as defined in its contract.

The Custodian may not engage in financial transactions related to the Plan that are based on written or oral instructions from any person other than the Board, the Administrator acting on the Board's behalf.

The Custodian will acknowledge in writing that he/she is a fiduciary of the plan relative to the services it provides.

6. Investment Managers

In managing assets for the Plan, the Board may engage the services of investment managers. Investment managers buy and sell securities according to guidelines established for their particular asset class.

Investment managers are to acknowledge in writing that they are fiduciaries of the plan relative to the services they provide.

II. Defined Benefit and Disability Components

The defined benefit and disability components (Defined Benefit Plans) may be considered together in terms of objectives, types of investments and performance measurement techniques. However, they may have different investment portfolios due to their different cash flow characteristics.

The Retirement Board has three tasks to accomplish in managing the Defined Benefit Plans: first, to adopt a realistic actuarial rate of return for the Plans; second, to recommend the level of contributions needed to keep the Plans financially sound; and third, to construct a portfolio that will have the potential of earning the actuarial rate of return with a high probability of success, and with as little volatility as possible.

The Board shall hire an actuary to conduct an actuarial study in meeting the first two goals. The Board may also hire an Investment Consultant to help in achieving the third goal, and to assist in setting the actuarial rate of return.

The Board shall exercise an appropriate level of due diligence with respect to all aspects of the investments in the Defined Benefit Plans: development of the asset allocation structure, selection of external investment managers, and the monitoring of investment performance.

The Board is aware that mutual funds and other commingled vehicles have separate guidelines and/or prospectuses. When employing such vehicles, the Board acknowledges that those separate guidelines and/or prospectuses shall supersede the guidelines that follow.

A. Manager Responsibility

Managers of funds offered under the Defined Benefit Component must acknowledge fiduciary responsibility relative to their work with the plan. Managers shall be held to the prudent expert standard articulated in Section I.B.2. above.

B. Plan Characteristics

In constructing portfolios for the Defined Benefit and Disability Plans, the Board should consider the following characteristics.

1. Liquidity

Each plan should have liquidity to meet its cash flow needs. Individual investments may have limited liquidity so long as they do not interfere with the operation of the Plan as a whole.

2. Diversification

Assets should be diversified among asset categories, sectors and geographic areas to minimize volatility.

3. Time Horizon

The time horizon of the Plans is perpetual. In projecting returns for the Plans, the Board may consider information from recent history (20 years), long-term history (about 70 years) or some combination of the two. The Board must judge what data gives the best estimate for future returns by applying evidence from the past to current circumstances.

4. Risk Tolerance

The primary investment emphasis of the Plans is to meet the actuarial rate of return. However, a secondary goal is to preserve capital and achieve consistency of results. The Board should strive to attain these secondary goals while still meeting the actuarial rate of return.

The Board recognizes that risk is present in all investments. The assumption of risk is needed to achieve satisfactory long-term results. It is the responsibility of the Board to manage the tradeoff between risk and return given the projected needs of the Plan, always attempting to minimize risk of the overall portfolio for any given level of return.

5. Asset Allocation

The Board shall conduct an asset allocation study once every three years or if circumstances change. The asset allocation study requires a projection of cash flows, which are dependent on contributions made into the plan and disbursements made from the plan in the form of benefits and expenses. The purpose of the asset allocation study is to understand the trade off between risk and return, and to aid in the construction of a portfolio that has a high probability of earning the actuarial rate of return but achieves this goal with a minimum of volatility.

6. Rebalancing

Once policy targets for asset allocation are set in the asset allocation study, the Board should instruct the Administrator to rebalance in an effort to keep asset allocation as close to the policy target as possible while at the same time minimizing transactions costs.

If asset allocation deviates from policy targets by more than five percentage points, the Board should authorize a lump-sum transfer to restore fund allocations to the original policy limits. In applying the rebalancing policy, the Administrator should also be mindful of minimizing transactions costs.

C. Investment Alternatives

Investment alternatives are divided into four broad categories: fixed income, domestic equity, international equity, and alternative investments.

Fixed income investments shall be used primarily to provide stability of principle. Domestic equity and international equity may be added to enhance return. Alternative investments may be added to enhance return, and to provide diversification that will reduce volatility as well.

D. Performance Standards

Each manager hired will be assigned a benchmark. Managers are expected to exceed their benchmark net of fees, and to perform in the upper half of a universe of managers in a similar style over a market cycle. Guidelines for each of the four asset classes are outlined in the next section.

III. Defined Contribution Component

The Board's objective in managing the Defined Contribution Component is to provide an array of investment options that will enable a participant to create a portfolio with risk-return characteristics appropriate to his/her individual time horizon, risk tolerance and financial needs.

The Board will encourage Plan participants to diversify assets to reduce volatility, and will provide sufficient information for Plan members to make informed investment choices.

The Board may decide to close a fund to additional participant investment, or to close a fund. The Board will insure that such a decision is communicated to plan participants, and will identify a replacement fund. The Board will communicate information about the replacement fund to plan participants, and give participants a reasonable period of time to reallocate their account balances from closed funds. If monies still remain in closed funds at the conclusion of the transfer period, the Board may invest these monies in the replacement fund.

The Board is aware that mutual funds and other commingled vehicles have separate guidelines and/or prospectuses. When employing such vehicles, the Board acknowledges that those separate guidelines and/or prospectuses shall supersede the guidelines that follow.

The Board may offer a self directed investment option for the plan participants.

A. Manager Responsibility

Managers of funds offered under the Defined Contribution Component must acknowledge fiduciary responsibility relative to their work with the Plan. Managers shall be held to the prudent expert standard articulated in Section I.B.2 above.

B. Investment Characteristics

The overall product offering must encourage employee participation, avoid undue complexity, and provide diversification. The Board should carefully consider the number of investment options offered, balancing the conflicting goals of simplicity and diversification.

C. Investment Alternatives

Investment alternatives offered by the Plan should include offerings in four broad categories:

- Money market or guaranteed income funds offering moderate income and safety of principal with little volatility;
- Fixed income funds varied by type of issuer, risk and duration, offering greater current income for moderately greater volatility and risk of principal;
- Common stock funds, varied by market capitalization (small cap, mid cap, large cap) and style (value vs. growth), offering greater potential for capital appreciation with greater volatility and risk to principal;
- Balanced or asset allocation funds, offering potential for capital gains with a high degree of current income by offering some combination of the three previous types of investments.

D. Performance Standards

During the selection process, each Fund should be benchmarked to an appropriate index such as the IBC Financial Data Money Market Index, the Lehman Aggregate Bond Index, the S&P 500 or the Russell 1000 stock indices. The Board should take care in selecting an appropriate index, and this index should be communicated to prospective investment firms during the selection process.

Funds are expected to exceed their appropriate benchmark on a net-of-fee basis, and to perform in the upper half of a universe of like funds. In the case of blended funds, the Board may create a benchmark from a blend of indices appropriate to each asset class. The Board should consider offering index funds if active managers appear unable to exceed their benchmarks on a net-of-fee basis.

E. Participant Responsibility

Each plan participant in the defined contribution plan has the responsibility to construct and manage portfolios based on his or her own investment preferences and risk tolerance. Recognizing that these assets are long-term savings for retirement, each plan participant is obliged to avoid excessive short-term trading that may have an impact on other plan participants or fund shareholders.

IV. Manager Guidelines

A. Fixed Income Managers

1. Investment objective. Active bond managers are expected to beat a benchmark appropriate to their style, and to perform in the top half of a universe of similar portfolios. The benchmark used for comparison should be assigned to the manager as part of the selection process.

2. Permissible securities. Fixed income managers may invest in U.S. Government and agency bonds, U.S. domestic corporate bonds, asset-backed and mortgage-backed securities, and convertible bonds.

3. Nonpermissible securities. Fixed income managers are prohibited from investing in equity securities (except for term trusts) and municipal bonds. Managers should not invest in any securities rated less than A-3 by Moody's or A- by Standard & Poors or Fitch. Should an issue receive a split rating, the lower rating will apply. Should an issue already in the portfolio fall below the prescribed level, the Manager has 10 business days to sell the bond or to explain to the Board why the bond is being held. Fixed income managers are also prohibited from investing in commodities, unregistered letter stock, foreign securities (other than those evidenced by American Depository Receipts which are listed on the New York Stock Exchange (NYSE), warrants, loans of portfolio securities, venture capital issues and private placements. Securities of a contributing employer, derivatives, interest-only and principal-only strips and currency swaps or other specialized investment activities are also prohibited. Derivatives include collateralized mortgage obligations other than sequential pay preferred issues. The purchase of mortgage securities on a To be Announced "TBA" basis is permitted provided that delivery of the mortgage pool is taken. Dollar rolls are prohibited.

4. Nonpermissible transactions. Fixed income managers are prohibited from purchasing securities on margin or selling short.

5. Cash balances. Managers are expected to remain fully invested. However, the decision to maintain cash balances is left to the manager's discretion, keeping in mind that the benchmark will be applied to the manager's total portfolio and not just to the non-cash portion. Managers should inform the Board within 10 business days if cash balances exceed 10%. Cash and equivalents may be invested in commercial paper rated A1 or P1, repurchase agreements, U.S. Treasury Bills and money market fund.

6. Marketability. Fixed income securities should be readily marketable. Managers are not to invest in private placements without the express written authorization from the Board.

7. Diversification. Fixed income obligations of any one issuer, other than securities subject to the guarantee of the United States government or any of its agencies, should represent no more than 5% of the aggregate fair market value of a manager's portfolio. Corporate bonds are limited to no more than 50% of the aggregate fair market value of a manager's portfolio.

B. Domestic Equity Managers

1. Investment Objective. Active equity managers are expected to outperform a benchmark appropriate to their style (value, core or growth) and market capitalization (large, mid and small). In addition, active equity managers should be ranked in the upper

half of a universe of similar portfolios. Passive equity managers are expected to track their appropriate benchmark.

2. Permissible securities. Equity managers may invest in common stocks, convertible securities, and ADRs for listed securities of foreign corporations. Listed securities are those traded on the NYSE, American Stock Exchange (AMEX) and National Association of Securities Dealers Automated Quotation System (NASDAQ) exchanges. Any investment in convertible debentures must carry an investment grade rating of "A" or better.

3. Nonpermissible securities. Equity managers may not invest in foreign securities other than those evidenced by listed ADRs as defined above, fixed income securities, commodities, unregistered letter stock, warrants, real estate mortgages, all options and futures, real or personal property, oil and gas property, loans of portfolio securities, venture capital issues, private placements, securities of a contributing employer, and derivatives. Derivatives include collateralized mortgage obligations, interest-only and principal-only strips, and currency swaps or other specialized investment activities.

4. Nonpermissible transactions. Except with the written consent of the Board, equity managers may not purchase securities on margin or sell short.

5. Cash balances. Managers are expected to remain fully invested. However, the decision to maintain cash balances is left to the manager's discretion, keeping in mind that the benchmark will be applied to the manager's total portfolio and not just to the non-cash portion. Managers should inform the Board within 10 business days if cash balances exceed 10%. Cash and equivalents may be invested in commercial paper rated A1 or P1, repurchase agreements, U.S. Treasury Bills and money market fund.

6. Marketability. Securities should be marketable. It is understood that small- and mid-capitalization stocks offer less liquidity than more widely held securities.

7. Diversification. Equity investments by a Manager in any single corporation shall be limited to no more than 5% of the Manager's total portfolio based on the fair market value of the portfolio at the time of purchase, and no more than 10% of the Manager's total portfolio at any quarterly valuation. The portfolio should also be appropriately diversified by industry sector. The manager should inform the Board in writing of any violation within 10 business days of its occurrence.

8. Income. There are no minimum yield or dividend requirements.

C. International Equity Managers

International equity is designed to add diversification to the Plans. This segment of the portfolios will be committted exclusively to foreign securities. There are different risks associated with this segment due to factors such as political and currency risk.

1. Investment objective. Active international equity managers are expected to outperform a benchmark appropriate to their style. In addition, active international equity managers should be ranked in the upper two quartiles of a universe of similar portfolios.

2. Permissible securities. International equity managers must invest in securities of companies not domiciled in the United States, including common stocks traded on any major stock exchange or ADRs traded in the United States, global depository receipts (GDRs) and preferred stocks traded on any major stock exchange. International equities include equities of both developed countries and emerging markets. International managers may hold no more than 10% of their portfolio in emerging markets unless they are hired expressly for an emerging markets mandate.

3. Nonpermissible securities. Foreign equity managers may not invest in equities of U.S.-domiciled companies, fixed income securities, commodities, unregistered letter stock, warrants, real estate mortgages, all options and futures, real or personal property, oil and gas property, loans of portfolio securities, venture capital issues, private placements, securities of a contributing employer, and derivatives. Derivatives include collateralized mortgage obligations, interest-only and principal-only strips, and currency swaps or other specialized investment activities.

4. Nonpermissible transactions. Except with the written consent of the Board, equity managers may not purchase securities on margin or sell short.

5. Cash Balances. Managers are expected to remain fully invested. However, the decision to maintain cash balances is left to the manager’s discretion, keeping in mind that the benchmark will be applied to the manager’s total portfolio and not just to the non-cash portion. Managers should inform the Board within 10 business days if cash balances exceed 10%. Cash and equivalents may be invested in commercial paper rated A1 or P1, repurchase agreements, U.S. Treasury Bills and money market fund.

6. Marketability. Securities should be marketable. It is understood that international equity securities, especially in emerging markets, offer less liquidity than more widely held securities.

7. Diversification. Equity investments by a Manager in any single corporation shall be limited to no more than 5% of the manager’s total portfolio based on the fair market value of the portfolio at the time of purchase, and no more than 10% at any quarterly valuation. The portfolio should also be appropriately diversified by industry sector. The Manager should inform the Board in writing of any violation within 10 business days.

8. Income. There are no minimum yield or dividend requirements.

D. Alternative Investments.

The Board may consider allocating a portion of the portfolio to alternative investments including timber, emerging market equity, private equity, international bonds, real estate, venture capital and hedge funds. Alternative investments should be considered with the goal of increasing the return of the portfolio without increasing risk, or lowering risk of the overall portfolio without lowering return.

Should the Board allocate part of the portfolio to an alternative asset class, separate investment guidelines specific to that asset class shall be adopted.

V. Manager Guidelines

Investment managers may not act upon written or oral instructions from any person other than the Board, or the Administrator acting on behalf of the Board or the Administrator.

A. Discretionary Authority

Managers are given full discretion to act in accordance with the Statement of Investment Policy and Guidelines. In placing portfolio transaction orders on behalf of the Plan, each manager shall obtain execution of orders through responsible broker/dealers at the most favorable prices and at competitive commission rates, taking into consideration the efficiency of execution of the transaction.

B. Reporting

1. Within 14 days a Manager must inform the Board of changes in organizational structure, ownership or key personnel. Also a Manager must inform the Board of material litigation brought by a client or former client relating to investment advisory services, or any enforcement proceeding by a regulatory agency that would have a material effect on the Manager, within 14 days after the Manager has been notified of the litigation or the enforcement proceeding.

2. On a monthly basis each Manager is to submit a portfolio statement. The monthly statement should include market and book values for all security holdings and performance results compared with the designated benchmark.

3. On a quarterly basis each Manager is to submit a brief letter or report on the status of and outlook for his or her portfolio. The report should address the following:

- economic investment and outlook;
- investment strategy (short- and intermediate-term)
- explanation of any high concentrations in any one sector or security;
- a list of portfolio holdings or a summary of the largest holdings;
- commissions on trades upon request;
- market and book values for all security holding;
- performance results compared with designated benchmarks;
- brokerage commission reports (if any);
- turnover ratio;
- derivative use;

- quality ratings with average quality (for fixed income portfolios).

4. <u>On an annual basis</u> each Manager is to submit an annual proxy voting report and the filing of Form ADV with the Securities and Exchange Commission. Also on an annual basis, each Manager is expected to meet with the Board to discuss management of the portfolio. The Board must receive a report covering the topics listed under No. 3 above five days before the meeting. Managers may be asked to meet with the board more frequently if special circumstances require it.

C. Proxy Voting

The Board requires that Investment Managers exercise authority with regard to proxy voting, acting solely in the interest of and for the exclusive purpose of providing benefits to participants and beneficiaries, and always acting in the best interests of participants and beneficiaries. With regard to corporate governance, proxy votes should be against proposals to limit or eliminate liability for violation of duty of care and to indemnify directors in instances of gross negligence.

The annual report on proxy voting covered under the previous section shall include:

- summation of all votes cast;
- affirmation that all stock holdings with votes due were voted;
- description of proposed changes in proxy voting policies;
- confirmation that all votes cast were consistent with policy;
- explanation of any violation of the previous requirements.

D. Cost Management

1. Turnover. The Board acknowledges that in the course of a year, investment conditions and opportunities will require managers to buy and sell securities on the Board's behalf. While the Board does not wish to inhibit the normal transactions executed by the advisors, it does wish to be made aware of the need for any high levels of turnover to avoid churning the portfolio. The following reporting requirements are therefore for control purposes and are not necessarily intended to limit portfolio turnover to the stated limits.

- Turnover is defined as the lesser of total purchases or sales. Convertible bonds are considered equity surrogates and are subject to the discussions for common stocks. Preferred stocks are considered perpetual bond surrogates and are subject to the discussions for corporate bonds.

- Equity turnover. Within five business days of the time in any calendar quarter in which the cumulative equity turnover during the quarter exceeds 30%, or within any calendar year in which the cumulative equity turnover exceeds 100%, the manager must submit a report to the Administrator stating the reason for the turnover as well as a list of any brokerage firms whose fees during the quarter or year exceeded $10,000.

- Fixed income turnover. Within five business days of the time in any calendar quarter in which the cumulative fixed income turnover during the quarter exceeds 100% or within any calendar year in which the cumulative fixed income turnover exceeds 200%, the manager must submit a report stating the reason for the turnover as well as a list of any brokerage firms handling more than 20% of the subject trades. U.S. government securities, used as collateral as part of the repurchase agreements, are exempt from this requirement.

- Turnover will be considered as one factor in the money manager selection and retention process.

2. Broker Relations. The investment manager is free to execute trades whenever it is in the best interests of the Plan, and will have the discretion to execute transactions with brokerage firms of his or her choosing.

- The selection of a broker should be based on the quality of executions. Factors affecting the quality of executions include the financial health of the brokerage firm, the business integrity of the brokerage firm, commission costs and overall efficiency.

- Commission dollars are a Plan asset and should not be used for purposes other than those that directly benefit Plan participants. The investment manager is required to provide reports and descriptions of all soft dollar arrangements involving the use of commission dollars to acquire resources of any type.

VI. Execution of Investment Policy

IN WITNESS WHEREOF, this document has been approved and executed by the undersigned on this

23 day of May 2006.

Retirement Board
City of Alexandria
Firefighters and Police Officers Pension Plan

Date: May 23, 2006

By: _______________

By: _______________

Plan Administrator
Board Chairman