

INVESTMENT SECTION

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Report on Investment Activity

Prepared by Sheila Morgan-Johnson, Chief Investment Officer

Introduction

The District of Columbia Retirement Board (the “Board”) is charged by law with the responsibility to prudently manage and invest the assets of the District of Columbia Teachers’ Retirement Fund and the District of Columbia Police Officers and Firefighters’ Retirement Fund, which are defined benefit pension plans (the “Fund”). The Board retains the services of an independent investment consultant who possesses specialized experience and resources in asset allocation, investment strategy, and investment manager selection. The Board’s investment consultant and traditional investment managers acknowledge their fiduciary responsibility in writing. Investment managers are accorded full discretion within general and specific investment manager policy guidelines.

Investment Objectives and Policies

The Board targets investment returns that meet or exceed the actuarial investment return target at a level of risk commensurate with the target return and consistent with prudent investment practices. The current actuarial investment return target is 6.5%, net of investment management fees and administrative expenses. In addition to meeting or exceeding the actuarial return target over the long-term, a secondary return objective is to exceed the annualized total return of the Board’s strategic asset allocation benchmark (the “Long-Term Policy Benchmark”).

As of September 30, 2017, the Long-Term Policy Benchmark included the following components:

Asset Class	Performance Benchmark	Weight
Fixed Income	Fixed Income Benchmark ¹	30%
U.S. Equities	Russell 3000 Index	20%
International Developed Markets Equities	MSCI World Index ex-U.S. (net)	16%
Emerging Markets Equities	MSCI Emerging Markets Index (net)	10%
Absolute Return	3-Month LIBOR + 5%	4%
Private Equity	MSCI All-Country World Index+3% (quarter lag)	9%
Real Assets	CPI-U + 5.5%	11%
Total		100%

As a long-term investor, the Board believes it can generate the highest risk-adjusted returns through a diversified portfolio with an emphasis on equity investments. Although equities are generally more volatile than other asset classes in the short-term, if properly diversified, they are expected to yield higher total returns over the Fund’s multi-decade time horizon. In addition, while the Board generally believes in the value of active management, it utilizes lower-cost passive investment strategies (e.g., index funds) in more efficient markets where active managers have a lower likelihood of generating excess returns.

¹ The Fixed Income Benchmark is a composite of 34.9% Bloomberg Barclays (BB) U.S. Aggregate Index, 23.7% BB U.S. TIPS Index, 12.8% BB U.S. High-Yield Constrained Index, 9.5% Credit Suisse Levered Loan Index; 6.3% BB Global Aggregate ex U.S. Index, and 12.7% JPM GBI-EM Global Diversified Index.

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Fiscal Year 2017 Global Market Review

U.S. equity markets, as represented by the Russell 3000 Index², rose 4.2% during the first quarter of the fiscal year driven by expectations for robust economic growth, tax cuts, and infrastructure spending following the election of Donald Trump. Developed non-U.S. equity markets, as represented by the MSCI World ex U.S. Index³, declined by 0.4% due to a depreciation in foreign currencies⁴. Rising interest rates in the U.S. and the strong U.S. dollar were headwinds for emerging markets during the quarter as the MSCI Emerging Markets Index⁵ was down 4.2%.

The second quarter posted strong returns as the Russell 3000 Index was up 5.7% and the MSCI World ex U.S. Index advanced 6.8%. Emerging markets had the strongest performance as the MSCI Emerging Markets Index advanced 11.4%. Reversing a trend from earlier periods, foreign currencies appreciated, boosting returns for U.S. dollar-based investors. Investors were grappling with the market implications of the changing political and economic landscape in the U.S. and abroad but maintained a risk-on position given sustained economic growth.

Global equity markets continued their upward trajectory during the third quarter of the fiscal year as the Russell 3000 Index was up 3.0%, the MSCI World ex U.S. Index advanced 5.6%, and the MSCI Emerging Markets Index gained 6.3%. Foreign currency appreciation boosted developed non-U.S. and emerging market equity returns once again. Generally, the global economic environment remained stable as growth continued at a moderate pace with continued support from central banks.

The fiscal year finished with another quarter of growth, as the Russell 3000 Index was up 4.6%, the MSCI World ex U.S. Index returned 5.6%, and the MSCI Emerging Markets Index rose 7.9%. Solid earnings and economic data underpinned market gains while trading activity remained light. It was the eighth consecutive quarter of positive returns for the Russell 3000 Index. In the Eurozone, confidence among businesses and consumers rose to its highest level since before the global financial crisis, and Germany's jobless rate reached a new 37-year low.

In terms of cumulative returns for the fiscal year ending September 30, 2017, the U.S. equity markets rose by 18.7%. International developed equity markets increased by 18.7%, while emerging markets advanced 22.5%. The Bloomberg Barclays U.S. Aggregate Bond Index, a broad measure of U.S. fixed income markets, was nearly unchanged at a positive 0.1% return.

Fiscal Year 2017 Investment Results

As of September 30, 2017, the Fund's total assets stood at \$7.8 billion after the payment of all benefits and administrative expenses, a \$1.0 billion increase from the end of the prior fiscal year. The Fund generated a net return of 13.0%, outperforming the Interim Policy Benchmark (an appropriate comparison for periods of 5 years or less) by 0.3%. Since its inception in October 1982, the Fund has underperformed the Long-Term Policy Benchmark by roughly 1.0% per year but has exceeded the actuarial return target by approximately 2.0% per year, net of fees.

The Fund's outperformance was driven by the active high-yield debt, emerging markets debt, and U.S. equity managers, which outperformed their benchmarks by a significant margin.

Exhibit 1 shows the gross returns for the Fund and each asset class over the one, three, five, and ten-year time periods ending September 30, 2017. The returns were calculated by the Board's custodial bank, The Northern Trust Company ("Northern Trust") and are time-weighted returns computed in compliance with the CFA Institute's Global Investment Performance Standards (GIPS). Benchmark returns for each asset class are presented for relative performance comparison purposes. The Interim Policy Benchmark is the best gauge for relative performance over time periods of five years or shorter, while the Long-Term Policy Benchmark is most appropriate for time periods exceeding five years.

² The Russell 3000 Index is designed to measure the performance of the 3,000 largest public U.S. companies and represents ~98% of the U.S. equity market.

³ The MSCI World ex U.S. Index is designed to measure the equity market performance of 22 developed markets outside the U.S.

⁴ All developed non-U.S. and emerging markets equity returns are in U.S. dollar terms, i.e., reflect the experience of a U.S. dollar-based investor, such as the District of Columbia Retirement Board.

⁵ The MSCI Emerging Markets Index is designed to measure the equity market performance of 23 emerging markets.

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Exhibit 1: Investment Performance (Gross of Fees)

as of September 30, 2017

Asset Class	1-Year	3-Year	5-Year	10-Year
Total Fund	13.1%	6.0%	7.5%	4.2%
<i>Interim Policy Benchmark¹</i>	12.7%	5.9%	7.5%	4.4%
<i>Long-Term Policy Benchmark²</i>	-	-	7.5%	4.3%
Cash and Cash Equivalents	1.0%	0.5%	0.6%	0.9%
<i>3-month U.S. Treasury Bills</i>	0.7%	0.3%	0.2%	0.5%
Fixed Income	2.9%	2.5%	2.0%	4.2%
<i>Fixed Income Benchmark³</i>	2.4%	2.8%	2.0%	4.3%
U.S. Equities	19.1%	10.6%	14.2%	7.5%
<i>Russell 3000 Index</i>	18.7%	10.7%	14.2%	7.6%
International Developed Markets Equities	18.7%	5.7%	8.8%	2.5%
<i>MSCI World Index ex U.S. (net)</i>	18.7%	4.6%	7.8%	1.7%
Emerging Markets Equities	22.6%	4.7%	4.1%	-
<i>MSCI Emerging Markets Index (net)</i>	22.5%	4.9%	4.0%	-
Absolute Return	8.4%	1.9%	2.2%	6.7%
<i>HFR Fund-Weighted Composite</i>	7.2%	3.4%	4.7%	-
<i>3-Month LIBOR+5%⁴</i>	-	-	-	2.7%
Private Equity	15.3%	6.3%	10.9%	7.2%
<i>Cambridge Associates Global PE & VC Index⁵</i>	15.8%	9.2%	12.8%	-
<i>MSCI All Country World Index+3% (quarter lag)⁶</i>	-	-	-	6.6%
Real Assets	9.8%	10.2%	9.7%	-
<i>CPI+5.5%</i>	7.1%	6.4%	6.9%	-

¹ As of 9/30/17, the Interim Policy Benchmark is a composite of 22.9% Russell 3000 Index, 18.3% MSCI World Index ex U.S. (net), 11.4% MSCI Emerging Markets (net); 11.0% Bloomberg Barclays (BB) U.S. Aggregate Index, 4.1% BB U.S. Corporate High Yield Index, 3.0% Credit Suisse Leveraged Loan Index, 2.0% BB Global Aggregate ex US Index, 4.0% JPM GBI-EM Global Diversified Index, 7.6% BB U.S. TIPS Index, 3.8% HFR Fund-Weighted Composite, 4.0% Cambridge Associates Global Private Equity and Venture Capital Index (quarter lag), 5.2% Real Estate Interim; 0.8% Cambridge Associates Upstream Energy & Royalties and Private Equity Energy Index (quarter lag), 2.2% Cambridge Associates Infrastructure Index (quarter lag).

² As of 9/30/17, the Long-Term Policy Benchmark is a composite of 20% Russell 3000 Index, 16% MSCI World Index ex U.S. (net), 10% MSCI Emerging Markets (net); 11% BB U.S. Aggregate Index, 4% BB U.S. Corporate High Yield Index, 3% Credit Suisse Leveraged Loan Index, 2% BB Global Aggregate ex US Index, 4% JPM GBI-EM Global Diversified Index, 6% BB U.S. TIPS Index, 4% 3-Month LIBOR+5%, 9% MSCI ACWI + 3%, 11% CPI + 5.5%.

³ The Fixed Income Benchmark is a composite of 34.9% BB U.S. Aggregate Index, 23.7% BB U.S. TIPS Index, 12.8% BB U.S. High-Yield Constrained Index, 9.5% Credit Suisse Levered Loan Index; 6.3% BB Global Aggregate ex U.S. Index, and 12.7% JPM GBI-EM Global Diversified Index.

⁴ Prior to 9/30/13, 3-month LIBOR. Blended return stream.

⁵ Prior to 12/31/07, Cambridge Associates U.S. Private Equity & Venture Capital Index (quarter lag).

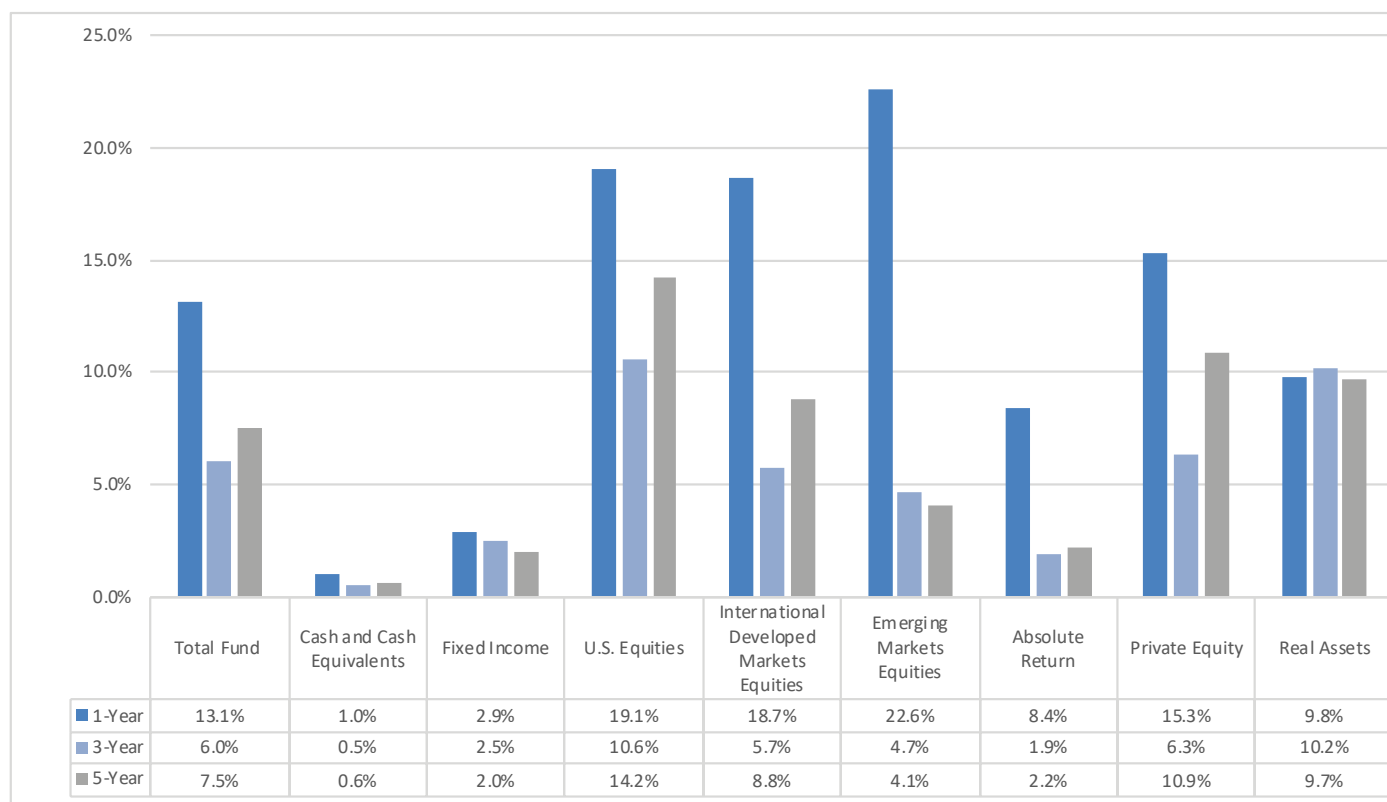
⁶ Prior to 12/31/07, Russell 3000 + 3% (quarter lag).

⁷ As of 9/30/07, the Interim Real Assets Benchmark is a composite of 40.0% FTSE/EPRA NAREIT Global Index, 17.1% Cambridge Associates Real Estate Index (quarter lag), 28.6% Cambridge Associates Infrastructure Index (quarter lag), and 14.3% Upstream Energy & Royalties and Private Equity Energy Index (quarter lag).

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Exhibit 2: Historical Investment Performance

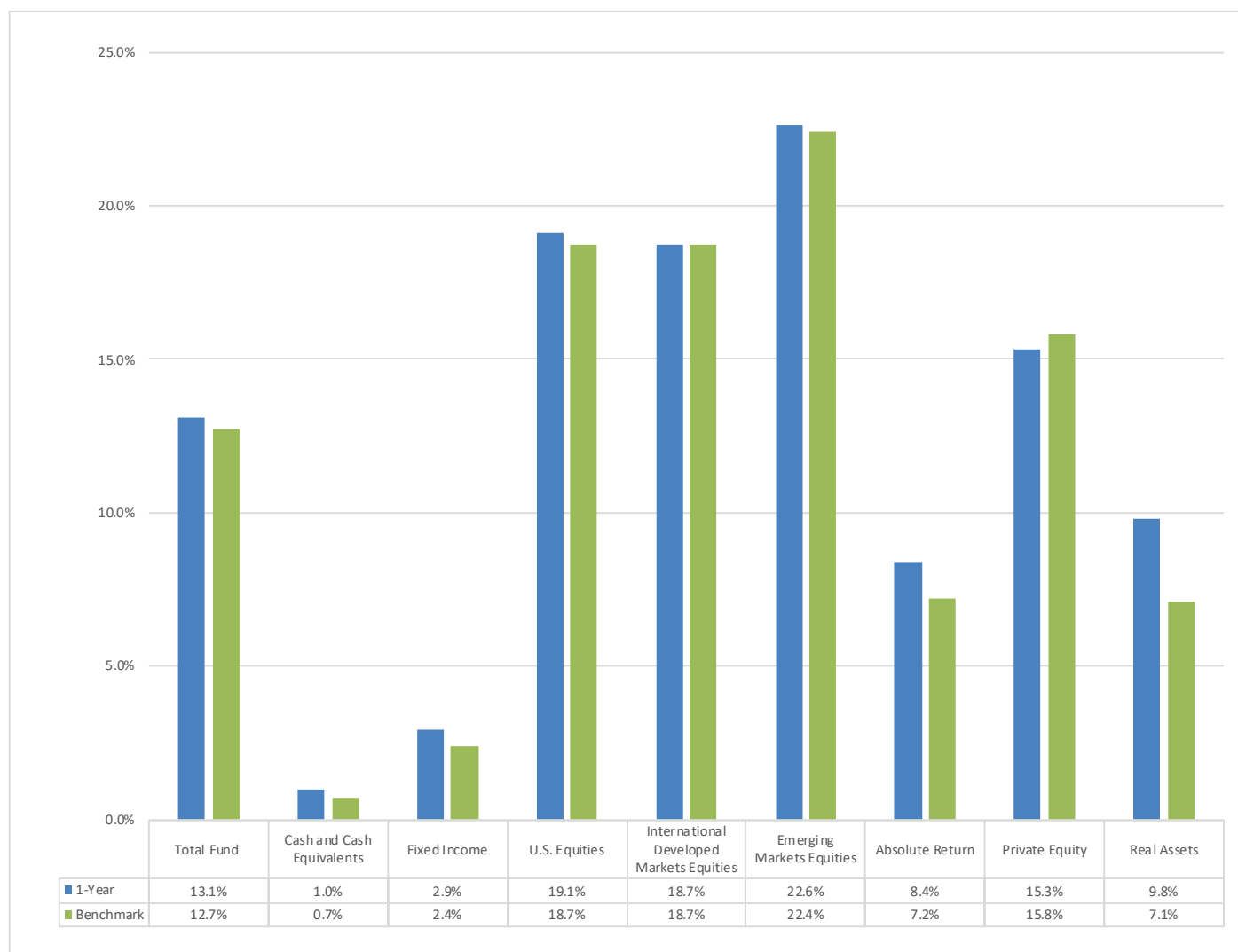
As of September 30, 2017



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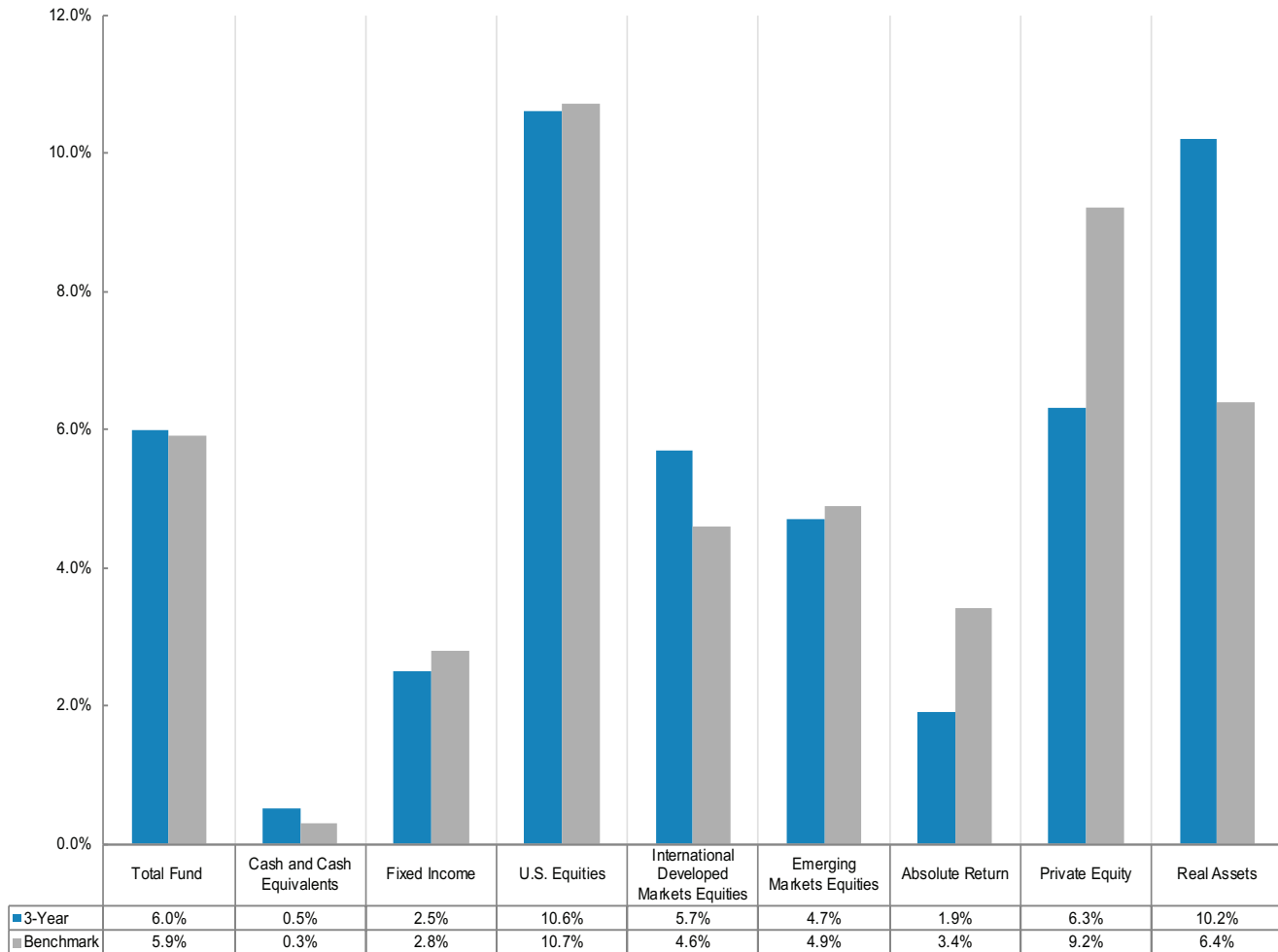
Exhibit 3: 1-Year Performance vs. Benchmark

As of September 30, 2017



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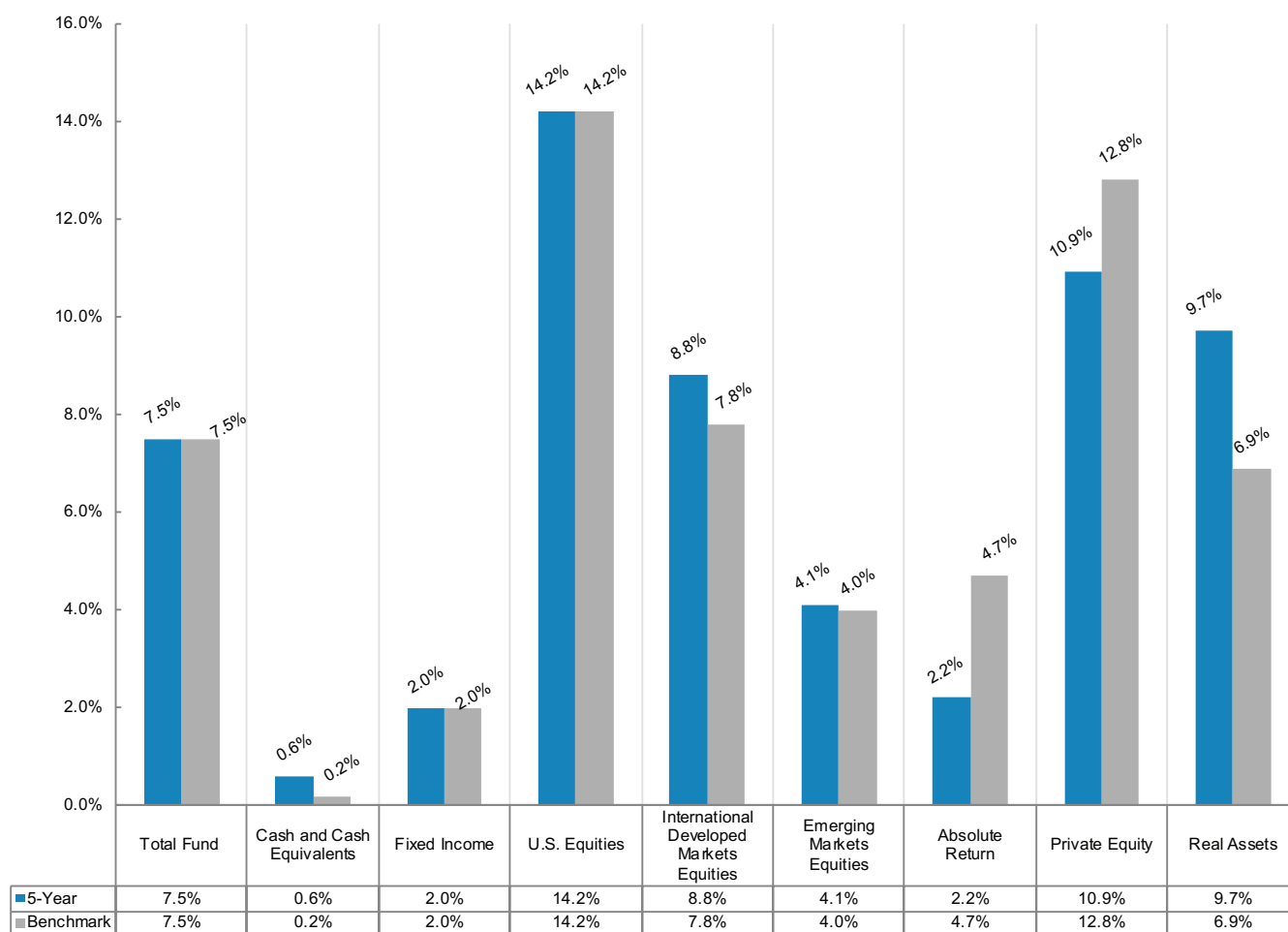
Exhibit 4: 3-Year Performance vs. Benchmark As of September 30, 2017



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Exhibit 5: 5-Year Performance vs. Benchmark

As of September 30, 2017



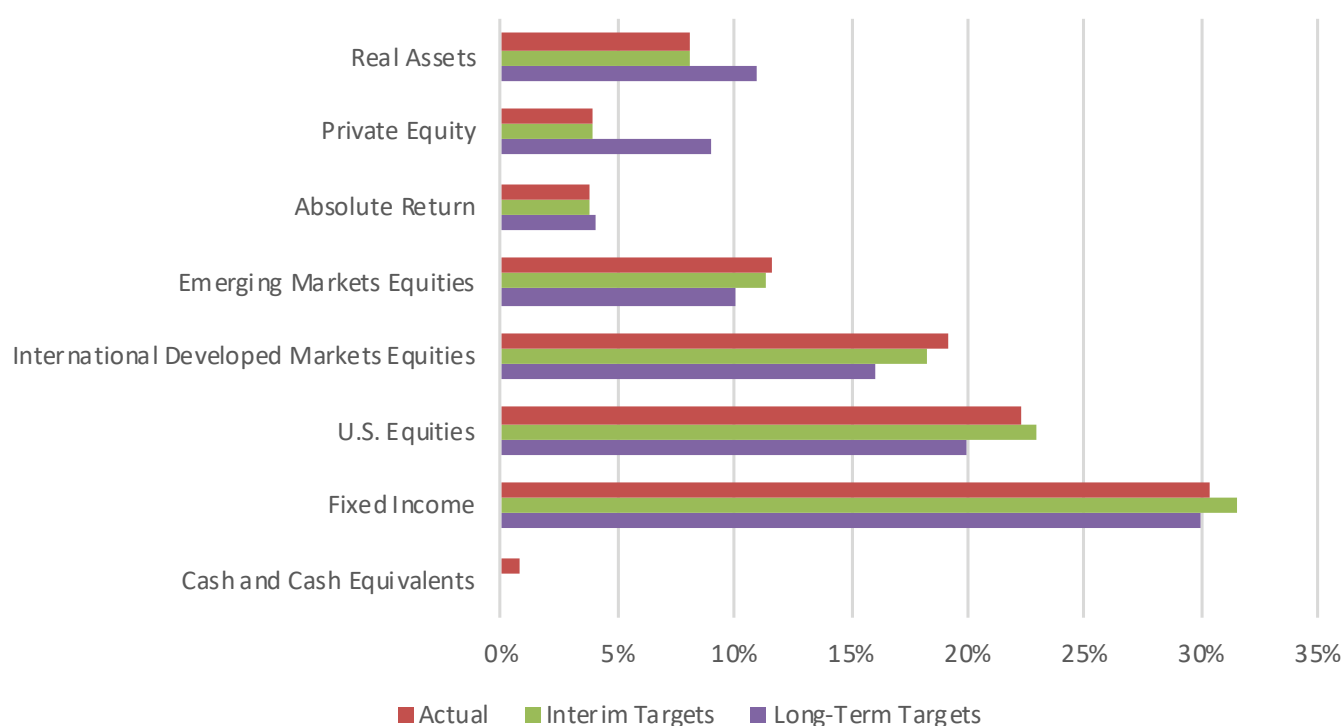
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Asset Allocation

At the outset of Fiscal Year 2017, the Board reviewed the asset allocation structure and approved new targets, with the primary changes being an increase in real assets and private equity and decrease in absolute return targets.

The Interim Policy target distributes the underweight to alternative investments (absolute return, private equity, and real assets) across traditional investments (fixed income and public equities) in line with the Fund's Long-Term Policy target. The Actual, Interim and Long-Term Policy allocations are shown in Exhibit 6.

Exhibit 6: Actual, Interim Target and Policy Asset Allocations as of September 30, 2017



As of September 30, 2017, all the Fund's asset classes were within their respective target allocation ranges.

The underweight in private equity is driven by a deliberate, measured pace of new commitments, a high volume of realizations from more mature funds as well as substantial growth in total fund assets. The current underweight should moderate by 2020-2022, as new funds draw down capital and mature funds reduce distributions. In the meantime, the Board is focused on a consistent pace of new commitments, subject to the availability of compelling opportunities, strong fit with the existing investment program, and attractive market characteristics.

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Other Updates

During Fiscal Year 2017, the Board completed the implementation of the new strategic asset allocation, which was approved in November 2016.

Environmental, Social, and Governance (ESG)

The Board's staff and consultant also continued the incorporation of the Board's ESG policy, adopted in November 2013, into the investment and operational due diligence processes. This area continues to be a focus when evaluating prospective and existing investment managers.

Private Market Commitments

Within the alternative investments program, the Board committed a total of \$525 million to seventeen private equity and real assets limited partnerships. In private equity, this included funds focused on U.S. buyouts, Western European buyouts, and U.S. growth equity. In real assets, commitments included opportunistic real estate in the U.S. and Western Europe, as well as natural resources and infrastructure investments.

Investment Activity Summary

During Fiscal Year 2017, there were no investment-related service provider changes.

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List of Largest Holdings

Top 10 Fixed Income Holdings (Dollar amounts in thousands)						
Rank	Security Name	Moody's Quality Rating	Par Value	Interest Rate (%)	Maturity Date	Market Value
1	UNITED STATES TREAS INFL INDEXED NTS 0.1	Aaa	\$ 36,966	0.13	04/15/2019	\$ 37,094
2	UNITED STATES OF AMER TREAS NOTES 0.125%	Aaa	\$ 26,144	0.13	04/15/2020	\$ 26,265
3	UNITED STATES TREAS INFL INDEXED NTS 0.1	Aaa	\$ 26,041	0.13	04/15/2021	\$ 26,111
4	UNITED STATES TSY INFL IX TREAS BOND	Aaa	\$ 24,290	0.66	01/15/2024	\$ 24,784
5	UNITED STATES TREAS NTS DTD 01/15/2016	Aaa	\$ 23,251	0.64	01/15/2026	\$ 23,545
6	UNITED STATES OF AMER INFL INDXD TREAS N	Aaa	\$ 23,018	0.26	01/15/2025	\$ 22,792
7	UNITED STATES TREAS INFL INDEXED NTS .12	Aaa	\$ 22,233	0.13	01/15/2023	\$ 22,182
8	UNITED STATES TREAS INFL NTS 0.375% DTD	Aaa	\$ 21,932	0.39	07/15/2025	\$ 21,932
9	UNITED STATES TREAS INFL INDEXED NTS .12	Aaa	\$ 20,686	0.13	07/15/2022	\$ 20,788
10	UNITED STATES TREAS NTS 0.125% INDEX LIN	Aaa	\$ 20,566	0.14	01/15/2022	\$ 20,635

Top 10 Public Equity Holdings (Dollar amounts in thousands)			
Rank	Security Name	Shares	Market Value
1	Apple Inc.	275,605	\$ 42,476,212
2	Samsung Electronics Co., Ltd.	18,951	\$ 41,649,403
3	Alphabet Inc.	39,294	\$ 38,011,179
4	Alibaba Group Holding Limited	216,736	\$ 37,432,439
5	Tencent Holdings Limited	810,928	\$ 34,905,205
6	Facebook, Inc.	179,586	\$ 30,685,854
7	Microsoft Corporation	396,198	\$ 29,512,815
8	Amazon.com, Inc.	28,737	\$ 27,625,993
9	Taiwan Semiconductor Manufacturing Co Lt	3,524,929	\$ 25,166,440
10	Nestle S.A.	267,758	\$ 22,442,344

A complete list of portfolio holdings is available upon request.

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Schedule of Fees and Commissions

During fiscal year 2017, the Board paid the following fees and commissions:

Expense Category	Amount (Dollars in thousands)	Percent of Fund
Investment Managers*	\$ 14,360,817	0.185%
Investment Consultants	909,715	0.012
Investment Administrative Expense	784,973	0.010
Custodian	237,250	0.003
Brokerage Commissions**	985,074	0.013
Total	\$ 17,277,829	0.223%

* Includes fees paid to traditional investment managers only. Traditional investment managers are those that invest primarily in public equity and fixed income securities.

** Includes separate account and commingled fund relationships.

Total	Total Shares Traded	Total Commission (Dollar Value)	Commission (Cost Per Share)	Commission (Basis Points)	Number of Trades	Trade Value (Dollars in millions)
Channing Capital Management	3,757,673	-104,739	-2.8	-8	722	139
Sands Capital Management	815,122	-19,532	-2.4	-3	264	76
Altrinsic	5,047,423	-116,855	-2.3	-16	318	75
Copper Rock International	26,276,018	-286,041	-1.1	-14	1,918	212
LSV Emerging Markets	90,479,899	-38,898	0	-6	3,490	64
Northern Truist Global REIT	44,338,680	-16,381	0	-2	5,771	79
Northern Trust R3000	82,353,376	-168,181	-0.2		39,004	2,669
State Street Global Advisors-CAD	624,486	-1,695	-0.3		1,235	17
State Street Global Advisors-EAFE	34,596,581	-50,408	-0.1		15,450	420
State Street Global Advisors-EM	168,473,777	-182,345	-0.1	-6	13,282	306
Total	456,763,035	-985,074	-0.2	-2	81,454	4,059

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Investment Summary

(Dollar amounts in thousands)

Asset Class	Market Value \$(000)	% of Fund
Cash and Cash Equivalents	\$ 63,409	0.8%
Fixed Income	2,355,985	30.4%
U.S. Equities	1,723,893	22.2%
International Developed Markets Equities	1,484,838	19.2%
Emerging Markets Equities	898,788	11.6%
Absolute Return	292,585	3.8%
Private Equity	308,138	4.0%
Real Assets	624,328	8.1%
Total	\$ 7,751,966	100.0%

Note: Transition Account balance of \$8,484 included in Fixed Income.