Governance Policy for Alternative Investments

Approved by the Board of Trustees

Adopted: May 17, 2012
Revised: September 28, 2017

Superior alternative investment performance is achieved by investing with top-tier general partners. Such partnerships are difficult to access because demand exceeds availability of limited partnership interests and time is of the essence. The District of Columbia Retirement Board (“Board”) has put in place a flexible and nimble process to be able to prudently capitalize on potential opportunities in alternative investments. The Board’s Alternative Investments Program (“Program”) has three segments: private equity, hedge funds (absolute return strategies), and real assets, which include real estate, infrastructure/opportunistic investments and natural resources.

The Board’s investment approval process for traditional active public market investments, which may include interviews with 2-3 finalist candidates, rules against investing in the top-tier alternative investments space.

Because alternative investments cannot be efficiently sourced through competitive bidding, the Board’s staff and alternative investments Consultant (“Consultant”) will source and evaluate the most compelling alternative investment opportunities. In selecting private partnership investments for recommendation to the Investment Committee, the Chief Investment Officer (“CIO”), and Consultant will endeavor to access the highest-quality general partners to enable the Alternative Investments Program to meet its long-term return objectives within the parameters established by this Policy.

A. **Annual Commitment Budget**
On an annual basis, the Consultant will present to the Investment Committee a private partnership commitment budget for each Program segment for consideration and approval by the Board of Trustees. The annual commitment budget will include a target dollar level of investment as well as lower and upper ranges relative to the target to provide the flexibility necessary to capitalize on investment opportunities. The annual budget will also include a target range for new private partnerships and commitments with existing private partnerships offering a continuation of the fund strategy in a successor fund (“re-ups”) and the lower and upper dollar range for each private partnership commitment.

B. **Forward Calendar**
On at least a quarterly basis, the Consultant will present to the Investment Staff a Forward Calendar containing an updated list of alternative investments coming to market that meet the
investment criteria of the Program (quality, expected return and risk) on a preliminary basis, for consideration. The Investment Staff and Consultant will complete its due diligence on the Forward Calendar additions and the CIO will only select investment opportunities for a commitment that (1) meet the investment criteria of the Program; and (2) are within both the target range of annual commitment amounts and number of alternative investments.

C. Due Diligence Process
Prospective investment opportunities will be evaluated based on three key criteria:

1. Fit within the Alternative Investments Program;
2. Attractive current and expected market conditions for the strategy; and
3. Attractive firm and fund-specific characteristics, including the following:

   a. **Organization:** Firms considered for this Program may include established as well as recently formed organizations that are raising their first institutional fund. Organizational stability and alignment of interest (including, employee ownership, compensation, general partner commitment) will be important factors in evaluating potential investment opportunities.

   b. **Investment Experience:** Investment teams are expected to have significant investment experience and expertise relevant to their investment strategy. If possible, the track records of the team members will be evaluated on a stand-alone basis.

   c. **Staffing:** The organization must have a sufficient number of investment professionals and support staff to successfully implement the proposed strategy. The firm’s principals should dedicate the majority of their time and effort to the proposed opportunity and make, within the context of their liquid net worth, a meaningful personal financial commitment. The amount of targeted capital commitments, average investment size and anticipated number of transactions should be reviewed to assess the appropriate staffing level.

   d. **Investment Strategy:** The proposed strategy and business plan should be set forth in sufficient detail to permit substantive and meaningful review of the opportunity, the investment concept, and the risk factors. The proposed strategy and business plan shall provide reasonable assurance that the investment strategy will be differentiated in one of two ways: (i) a traditional investment with a specialized focus or (ii) a “cutting edge” investment strategy that is relatively new to the institutional marketplace. The risk/reward trade-off in the particular investment strategy and/or market should be attractive and based on reasonable assumptions and not competitive with existing investments.

   e. **Focus:** Potential investments may include a very specific investment focus that differentiates the opportunity from more traditional opportunities. These opportunities may be focused on investing in “underserved markets”, emphasize investments that impact a particular demographic, or possibly specify a designated geographic region for investment. These are only examples and the specific focus on any particular opportunity may be out of the above-mentioned areas of focus.

   f. **Fund Size:** The Board’s commitment shall not represent more than 20% of any one investment vehicle, together with amounts committed to its parallel vehicles,
total commitments as of the final closing of such vehicle, and any one investment vehicle shall not comprise more than 10% of the Program segment (defined as fund commitment divided by target allocation to segment at the time of commitment).

**g. Types of Investments:** Prospective investment opportunities span the alternative investments segment, including, private equity (venture capital, buyout/corporate restructuring, expansion capital, international/emerging markets, special situations, distressed securities, and turnarounds), absolute return funds (market neutral, credit/distressed, event, equity long/short, global macro, multi-strategy) and real assets (energy/natural resources, private real estate/infrastructure, commodities).

**h. Terms:** At a minimum, private partnership terms are expected to be “in-line” with industry norms. However, the CIO, Legal Counsel, and Consultant will attempt to negotiate terms that will maximize the rights of the Board and other limited partners.

**D. Selection and Recommendation of Private Partnerships**

Each applicable investment opportunity from the Forward Calendar will be reviewed by the Investment Staff and Consultant so that the key criteria listed above are applied consistently to each opportunity. Due diligence will be conducted on the investment opportunities that the CIO agrees may be appropriate for investment. Partnership documentation for new private partnership commitments will be reviewed by the Board’s Legal Counsel. If the outcome of the due diligence process is favorable, a written recommendation to make an initial commitment to a private partnership will be presented to the Investment Committee for evaluation and approval by the Board of Trustees.

The Board of Trustees will delegate authority to the CIO and Executive Director to negotiate and jointly execute legal documents for re-ups with existing private partnerships offering a continuation of the fund strategy in a successor fund, based upon advice of Legal Counsel. **However, the CIO shall submit all re-ups to the Chair of the Investment Committee for review and determination on whether the proposed agreement should be brought to the Board’s attention for approval.** There will be a formal report to the Board of Trustees at each Investment Committee meeting that the CIO and Executive Director have re-upped in a successor fund. If investments cannot be found that meet the criteria, such investments will be de-emphasized until market conditions improve. The Board will not make investments solely for the sake of diversification.

**E. On-Going Monitoring and Performance Reporting**

The Investment Staff and Consultant will monitor all existing private partnerships on an on-going basis through the review of quarterly fund reports as well as regular interactions with each general partner. Performance reports will be presented to the Investment Committee for review. The Investment Staff and/or Consultant will meet with each general partner at least once per calendar year and will prepare written meeting notes for all meetings and calls. This information will be stored in the Board’s central research management system.
F. **Trustee Education**
The Consultant has developed the Alternative Investment Education Program for the Board that includes providing information and background on the asset types, market size and players, characteristics and key risk parameters. The Staff and Consultant will periodically offer trustee education sessions at Investment Committee Meetings.