



D.C.R.B. REPORT

A Publication of the D.C. Retirement Board
for Active and Retired Fire Fighters, Police Officers, and Teachers

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D.C. Retirement Board

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Trustees

Mary A. Collins, Chairman, Elected Active Teacher
Barbara Davis Blum, Mayoral Appointee
Shireen L. Dodson, Council Appointee
Betty Ann Kane, Council Appointee
Brian K. Lee, Elected Active Fire Fighter
Judith C. Marcus, Elected Retired Teacher
Michael J. McNally, Elected Retired Fire Fighter
Darrick O. Ross, Elected Active Police Officer
William H. Simons, Mayoral Appointee
George R. Suter, Elected Retired Police Officer
Lenda P. Washington, Council Appointee
[Vacant], Mayoral Appointee
N. Anthony Calhoun, Ex Officio Representative

Staff

Jorge Morales, Executive Director
Valerie Borden, Program Analyst
William Carr, Investment Analyst
Bruce Gamble, General Counsel
Florence Jones, Finance Assistant
Sheila Morgan-Johnson, Chief Investment Officer
Rhonda O'Neal, Senior Accountant
Denice Patterson, Administrative Assistant
Michael Slavin, Deputy Director for
Operations and Benefits
Julius Terrell, Associate General Counsel

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COLA

The DC Director of Personnel determined that the cost of living adjustment (COLA) to benefits beginning March 1, 2002 is 1.6% for police officers and fire fighters and 1.3% for teachers.

The Chairman's Corner

Your Retirement Board

At its regularly scheduled meeting on February 21, 2002, the Board conducted its annual election of executive officers who will serve in their respective positions until February, 2003. I am pleased to report that I received a



unanimous vote of confidence to once again serve as Chairman and Chief Executive Officer of the Board. Other executive officers include: Betty Ann Kane, Secretary; Judith C. Marcus, Treasurer; Brian K. Lee, Parliamentarian; and Darrick O. Ross, Sergeant-at-Arms.

Committee Structure

Since inception, the Board has operated under a committee system that provides a two-tiered process for review and analysis of all issues that come before it. As Chairman of the Board, one of my first official acts was to appoint chairs of each standing committee, each of whom brings individual skills and steadfast resolve to make significant contributions to the Board's singular mission. Given the important work begun by these Committees during the past 12 months, I invited the current committee Chairs to continue their dedicated service for an additional one-year term, and each one has accepted the challenge.

Barbara Davis Blum will again guide the Investment Committee as this ACommittee of the Whole@ continually monitors investment managers and Total Fund performance. This year, the Committee will also conduct an important asset/liability study to determine an appropriate strategic asset allocation model that reflects capital market assumptions and incorporates modern fiduciary investment practices. Shireen L. Dodson will direct the Minority Participation Committee's efforts to enhance investment performance by crafting internal policies and procedures that seek to capitalize on the advantages offered by largely untapped investment talent. As Chair of the Legislative Committee, Betty Ann Kane will

continue to track legislative enactments and administrative actions that affect the Board's activities. This Committee is also responsible for advancing certain Board initiatives including efforts to resolve systemic issues involving fragmentation of authority to administer the District's retirement programs. George R. Suter's Benefits Committee will again engage in persistent and diligent oversight of many critical issues including revisions to summary plan descriptions. The Committee will also focus on efforts to better coordinate information among political subdivisions of the District responsible for implementation of various components of the defined benefit plans. Finally, as Chairman of the Operations Committee, Lenda P. Washington will fully exercise her considerable and consummate skills managing the Board's organizational and operational functions including budget development and oversight, annual audits, financial record keeping and reporting, personnel policies, and a myriad of other important matters that come under her Committee's jurisdiction. Other hard working members who often take on special projects for the Board include ex officio representative N. Anthony Calhoun, retired fire fighter representative Michael J. McNally, and Mayoral appointee William H. Simons.

Of course, all of the important accomplishments of the Board would not be possible without talented and dedicated staff professionals. On behalf of the Board, I would like to offer our sincere thanks to our entire staff for their tireless, painstaking efforts to manage the all important day-to-day operations, which facilitate accomplishment of the Board's goals and objectives.

As Chairman of the Board for another term, I once again pledge my continued commitment to lead the Board's efforts to prudently manage the assets of your retirement funds. Our successful efforts will guarantee proper financing for the benefits to which you are entitled, and maintain a solid foundation for your overall retirement security.

Investment Program Update

Investment Objective

The Board is charged with the responsibility of managing the assets of the teachers, police officers and fire fighters retirement plans. The Board is required to discharge its fiduciary duties solely in the interest of the participants and beneficiaries, with the care, skill, and diligence, which a prudent

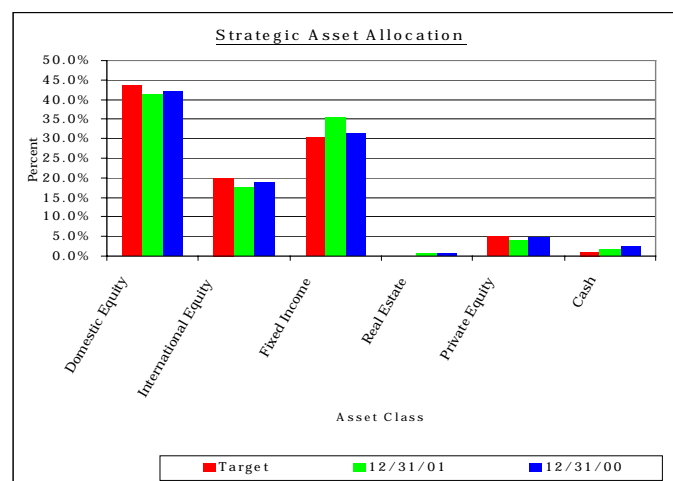
person would ordinarily exercise under similar circumstances. This standard of care requires diversifying the assets of the Board so as to minimize the risk of large losses.

Investment objectives are designed to optimize risk-adjusted returns. The prudent person standard allows the Board to establish investment policies based on investment criteria that it defines, and to delegate investment authority to investment professionals.

Board assets are managed by external investment management firms, who employ both active and passive strategies. Investment management firms are selected and retained based on rigorous performance and organizational factors. These firms engaged by the Board must have a demonstrated track record and a clearly defined and applied investment philosophy.

The long-term investment objective established by the Board is to achieve a rate of return which exceeds the 7.25% actuarial return assumption. The Board is a long-term investor and consequently, long-term results are emphasized over short-term gains.

Asset allocation is a key determinant of a successful investment program, and it is credited with being responsible for determining as much as 90% of a pension plan's total return in a given year. Asset allocation is the process that results in the selection of an optimal portfolio which best reflects the risk tolerance and environment of the Board. Diversification is achieved by combining asset classes, which are not perfectly correlated with each other. This may result in offsetting a market decline in one asset class with appreciation in another asset class. The benefit of diversification is a reduction in the volatility of the total portfolio's investment performance. The Board takes both asset and liability side considerations into account when reviewing asset allocation. The current strategic asset structure is as follows:

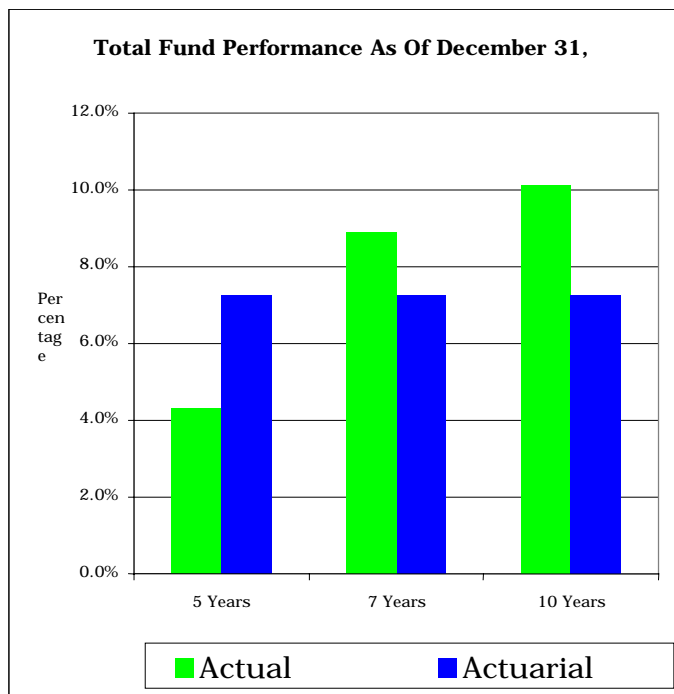


Investment Performance

The investment program achieved good performance relative to the Total Fund Benchmark for calendar year 2001, with a total return of -5.0%. This return exceeded the Total Fund Benchmark return of -7.6% by 260 basis points. Performance is calculated using the time-weighted rates of return in compliance with AIMR (Association for Investment Management and Research) standards. Total returns for the 3, 5, and 10 year periods ended December 31, 2001, were 4.3%, 8.9% and 10.1%, respectively. Total return includes interest and dividends as well as capital appreciation.

Despite extreme market volatility, the fair value of the Board's assets decreased only 1%, from \$2,075 million on December 31, 2000 to \$2,052 million on December 31, 2001.

The Board's domestic (U.S.) equity investments returned -7.8% for the calendar year and international equities (non-U.S.) returned -19.3% for the same time period. Fixed income securities fared much better returning 9.1% during 2001. Private equity is reported with a one-quarter lag to the rest of the investment program, returning -20.1% for 2001. The Board's exposure to real estate is quite minimal, with the last remaining property sold in October 2001. This return is also reported with a one-quarter lag, returning -9.9% for the calendar year. The Board's investment performance exceeded that of its benchmarks for all asset classes, except real estate and private equity. Over longer time periods, the Board's performance has consistently exceeded the actuarial target of 7.25% as illustrated below:



Legislative Report

The Board promulgated a final rule in the District of Columbia Register (49 DCR 1095, pub. Feb. 8, 2002) affecting prospective candidates for election to the Retirement Board. In order to give candidates an opportunity to more fully describe their qualification for service on the Board, the Board's election rules were amended to increase the qualification statement word limit from 25 to 50.

Fiscal Year 2002 Budget Approved

The District of Columbia Appropriations Act, 2002 (Pub. L. 107-96) was signed into law on December 21, 2001. Consistent with the Board's request, \$13,388,000 is appropriated from the earnings of the applicable retirement funds to pay legal, management, investment, and other fees and administrative expenses of the Retirement Board.

Board Testifies before City Council

On February 11, 2002, the Board provided testimony to the Committee on Government Operations chaired by the Honorable Vincent B. Orange, Sr. At this hearing, the Board provided an overview of its investment performance and noted several related goals and objectives:

MOA for Charter School Retirement

After extensive negotiation, the Board signed a Memorandum of Agreement (MOA) on February 14, 2002 which provides interim guidelines to implement the retirement options prescribed by the District of Columbia School Reform Act of 1995.

Summary Plan Descriptions

The Board continues to work in cooperation with the U.S. Department of the Treasury (Office of D.C. Pensions), to revise retirement plan description summaries of the retirement programs for District police officers, fire fighters and teachers.

Plan Governance

The Board participated in an informal working group comprised of representatives from the D.C. Office of Personnel, the D.C. Office of Pay and Retirement Services, and the D.C. Treasury, for the purpose of identifying and resolving concerns that exist in administration of the District's retirement programs which include both the defined benefit and defined contribution plans. The D.C. Office of Personnel is taking the lead in this effort and is currently evaluating alternative approaches to solve existing concerns.

Election of Retired Teachers Representative

On December 20, 2001, the Board certified the results of the election of Judith C. Marcus to serve a second term representing retired teachers.

STATEMENTS OF NET ASSETS		
September 30, 2001		
(\$000s)		
	Teachers' Retirement Fund	Police Officers & Fire Fighters' Retirement Fund
ASSETS		
Investments & accrued interest	\$ 829,187	\$ 1,164,361
Benefit contributions receivable	1,349	982
Due from District, net		
Total Assets	830,536	1,165,343
LIABILITIES		
Liabilities under securities lending transactions	48,036	67,777
Accounts payable - investment expenses	571	802
Due to Federal government	2,600	2,000
Due to District, net	575	946
Total liabilities	51,782	71,525
Net Assets Held in Trust for Pension Benefits	\$ 778,754	\$ 1,093,818
STATEMENTS OF CHANGES IN NET ASSETS		
Year Ended September 30, 2001		
(\$000s)		
	Teachers' Retirement Fund	Police Officers & Fire Fighters' Retirement Fund
Additions		
Contributions:		
District	\$ 200	\$ 49,000
Employees	24,047	16,832
Total contributions	24,247	65,832
Investment income:		
Net appreciation (Depreciation) in fair value of	(129,875)	(182,947)
Interest and dividends, net of interest expense	27,247	38,779
Subtotal	(102,628)	(144,168)
Less:		
Investment expenses	1,908	2,858
Net investment income	(104,536)	(147,026)
Total Additions	(80,289)	(81,194)
Deductions		
Benefit Payments	2,600	2,838
Administrative expenses	822	1,161
Total Deductions	3,422	3,999
Net Increase (Decrease)	(83,711)	(85,193)
Net Assets Held in Trust for Pension Benefits:		
October 1	862,465	1,179,011
September 30	\$ 778,754	\$ 1,093,818

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