



City of Cincinnati Retirement System Investment Committee

April 2, 2009 12:00PM
Centennial II – Meeting Room A








AGENDA

Call to Order

Approval of Minutes



New Business

-  Investment Policy Guidelines
-  February 2009 Report
-  Asset allocation Study
-  Discussion Securities Lending
-  Discussion of Investment Consultant Annual Review
-  Discussion of Turner Investment Partners holding Deckers Outdoor Corporation (DECK)
-  Investment Managers on Alert
 - PIMCO
 - Allegiant
 - PanAgora
 - Montage & Caldwell
 - Harding Loevner

Adjournment

Next Meeting: May 7, 2009 - Centennial II, HR – Room A

**Cincinnati
Retirement System**

Statement of Investment Policy

October, 2008

Definition of Terms

"System" Defined

In this Policy, the "System" refers to the pool of assets held in trust under the terms of a Trust Agreement established by the Cincinnati Retirement System, which will be used to pay qualified employee, disability, and health benefits (see Addendum C).

"Board of Trustees" Defined

In this Policy, the "Board of Trustees" refers to the named fiduciary appointed to administer the System pursuant to the Trust Agreement (see Addendum E).

"Investment Professionals" Defined

In this Policy, the "Investment Professionals" refers to investment managers, the cash equitization manager, the investment consultant(s), the custodian, the securities lending provider, commission re-capturing agent, and third party proxy voting service provider.

"Investment Manager" Defined

In this Policy, the "Investment Manager" refers to any firm, fund, or individual that analyzes, selects, and executes the purchase or sale of individual securities. The investment manager may manage the assets of the System in separate accounts held by a third party custodian, a commingled fund, a limited partnership, or a mutual fund.

"Investment Consultant" Defined

In this Policy, the "Investment Consultant" refers to any firm that provides investment advice and information and assists the Board of Trustees in fulfilling their fiduciary responsibilities as Trustees.

"Cash Equitization Manager" Defined

In this policy, the "Cash Equitization Manager" refers to any firm, fund, or individual that executes the purchase or sale of futures contracts in order to replicate the returns of the equity markets on the cash holdings in the equity manager portfolios.

"Custodian" Defined

In this Policy, the "Custodian" refers to any third party firm that safe-keeps the assets of the System.

"Securities Lending Provider" Defined

In this Policy, the "Securities Lending Provider" refers to any third party firm that lends the assets of the System to other parties in exchange for collateral and interest.

"Commission Re-capturing Agent" Defined

In this Policy, the "Commission Re-Capturing Agent" refers to any broker/dealer that credits or rebates in cash the System for transactions directed to its firm by the System's investment managers. The rebate represents a portion of the commissions (for equity transactions) or spreads (for fixed-income transactions) charged on the investment transaction.

"Third Party Proxy Voting Service Provider" Defined

In this Policy, the "Third Party Proxy Voting Service Provider" refers to any third party firm that votes the proxies of the stocks held by the System.

The Statement of Purpose

The System's Purpose

The System was established in 1931 as a defined benefit System and provides for both monthly pension benefits and medical benefits to qualified retirees, survivors of retirees, and disabled retirees of the City as well as retired members from closed groups (University Hospital, University of Cincinnati, and Hamilton County). The System is governed by Section 203 of the Cincinnati Municipal Code as adopted by the City of Cincinnati Council. A Board of Trustees has been established to oversee the operation of the System.

The Purpose of the Investment Policy

This investment policy is set forth by the Board of Trustees in order to:

- Define and assign the responsibilities of all involved parties.
- Establish a clear understanding of all involved parties of the investment goals and objectives of System.
- Establish the relevant investment horizon for which the System assets will be managed.
- Establish a target asset allocation and re-balancing procedures.
- Establish a methodology and criteria for hiring and firing investment professionals.
- Offer guidance and limitations to all investment managers regarding the investment of System.
- Establish a basis of evaluating investment results.

In general, the purpose of this policy is to outline a philosophy which will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical. This document is intended to serve as a reference tool, an operating code, and a communications link between the Board of Trustees, its staff, and its investment professionals.

Distinction of Responsibilities

The Board of Trustees' Authority and Responsibilities

Chapter 203-65 of the Cincinnati Municipal Code assigns a Board of Trustees with the responsibility for managing the assets of the System. The Board of Trustees must discharge its duties solely in the interest of the System and the System participants. The standards of care for the System are specified in Section 203-65 of the Cincinnati Municipal Code and conform to the standards described in Section 1339.53 of the Ohio Revised Code.

The Board of Trustees will generally be responsible for the following:

- 1) Complying with applicable laws, regulations, and rulings.
- 2) Selecting all qualified investment professionals.
- 3) Monitoring and evaluating investment performance and compliance with this Policy.
- 4) Reviewing and suggesting changes, as needed, to this Policy.
- 5) Establishing and reviewing the appropriateness of the System's asset allocation policy.
- 6) Taking action according to this Policy.

The Investment Manager's Authority and Responsibilities

The Board of Trustees will hire competent, registered professional investment managers to manage the assets of the System. Investment managers have the following responsibilities:

- 1) Vote proxy issues on securities held, unless a third party proxy voting service provider has been retained by the System. All proxies will be voted exclusively for the best interests of the System and their participants. Managers will maintain written policies for proxy voting and keep a proper record of all proxies to which the Program is entitled. Managers will provide an annual report that including their current proxy voting policy, a summary and detailed records of all proxies voted, and a statement indicating whether proxies were voted in conformance with the manager's internal proxy voting guidelines.
- 2) Provide written reports to the plan sponsor and consultant on at least a quarterly basis detailing performance for the most recent period as well as the current outlook of the markets.
- 3) Notify the client and the investment consultant on a timely basis of any significant changes in the ownership, organizational structure, investment strategy, portfolio design, or configuration of the investment team.

- 4) The investment firm shall notify the client annually when, in aggregate as a firm, the organization owns more than 10% of the outstanding shares in a single stock.
- 5) All qualified investment managers retained by the Board of Trustees will exercise discretion within the parameters set forth in these guidelines for the portfolio(s) they manage on behalf of the System (see Addendum A).

The Investment Consultant's Authority and Responsibilities

The Board of Trustees will hire an investment consultant to assist the Board of Trustees in fulfilling their fiduciary responsibilities and in fulfilling their responsibilities in accord with this Policy. The investment consultant will generally be responsible for the following:

- 1) Complying with applicable laws, regulations, and rulings.
- 2) Maintaining databases of qualified investment managers, custodians, securities lending providers, commission recapture agents, third party proxy voting service providers, and any other pertinent professionals that may assist in oversight of assets.
- 3) If needed, the investment consultant will assist the Board of Trustees with the search and selection of investment managers, custodians, securities lending providers, and third party proxy voting service providers.
- 4) Calculate investment performance and reconcile that performance with the investment managers.
- 5) Providing written reports that summarize the performance and analysis of the System's investments to the Board of Trustees no later than 45 days after of the end of each calendar quarter.
- 6) Monitoring and evaluating investment performance and compliance with this Policy. This includes meeting with the System's investment managers on a regular basis.
- 7) Make long-term assumptions on the capital markets for the purpose of evaluating the System's asset allocation policy.
- 8) Establishing and reviewing the appropriateness of the System's asset allocation policy.
- 9) Reviewing and suggesting changes, as needed, to this Policy.

The investment consultant retained by the Board of Trustees will exercise discretion within the parameters set forth in these guidelines on behalf of the System (see Addendum A).

The Custodian's Authority and Responsibilities

The Board of Trustees may utilize a third party custodian for the following:

- 1) hold and safeguard the assets of the System,
- 2) collect the interest, dividends, distributions, redemptions or other amounts due,
- 3) provide monthly reporting to all necessary parties,
- 4) forward any proxies to the investment manager, the client, or their designee,

- 5) sweep all interest and dividend payments and any other un-invested cash into a short-term money market fund for re-deployment, and
- 6) other duties as detailed in the respective custodial agreement

The custodian retained by the Board of Trustees will exercise discretion within the parameters set forth in these guidelines on behalf of the System (see Addendum A).

The Cash Equitization Manager's Authority and Responsibilities

The Board of Trustees may utilize a cash equitization manager to replicate the investment returns of the equity markets on the cash held in the equity managers portfolios. The cash equitization manager will purchase and sell futures contracts whose market value is based on the returns of specific equity markets. The notional value of the futures contracts will be closely equivalent to the aggregate cash holdings of all equity managers employed by the Board of Trustees. These cash holdings will be monitored on a daily basis and futures contracts will be bought or sold accordingly.

The Securities Lending Provider's Authority and Responsibilities

The Board of Trustees may utilize a securities lending provider to create income through the lending of the assets of the System. Securities lending providers will provide reports on a monthly basis to all necessary parties. The securities lending provider will be responsible for ensuring that adequate collateral will be provided to the System for the securities that are lent and that the interest rate generated by the securities lending program is fair and reasonable. Furthermore, the securities lending provider will attempt to return all lent securities to the System's appropriate account before any transactions on the lent securities are executed. The securities lending provider retained by the Board of Trustees will exercise discretion within the parameters set forth in these guidelines on behalf of the System (see Addendum A).

The Commission Re-capturing Agent's Authority and Responsibilities

The Board of Trustees may utilize a commission re-capturing agent to create income through the direction of brokerage. The commission re-capturing agent will execute all trades on a best execution basis. Periodic reports detailing the commissions recaptured will be provided to the client and the investment consultant monthly. The commission re-capturing agent retained by

the Board of Trustees will exercise discretion within the parameters set forth in these guidelines on behalf of the System (see Addendum A).

The Third Party Proxy Voting Service Provider's Authority and Responsibilities

The Board of Trustees may utilize a third party proxy voting service provider to vote the proxies of the stocks held by the System in the best interest of the System. The third party proxy voting service provider retained by the Board of Trustees will exercise discretion within the parameters set forth in these guidelines on behalf of the System (see Addendum A). The service provider is required to provide annual written reports detailing the voting record specific for the System's assets.

Investment Objectives

Return Objectives

The primary return objectives of the System are to:

- (a) preserve the safety of principal,
- (b) earn the highest possible total return consistent with prudent levels of risk, and
- (c) create a stream of investment returns to insure the systematic and adequate funding of actuarially determined benefits through contributions and professional management of the System assets.

To achieve these goals, the System has been optimized to meet its actuarial assumed rate of return (see Addendum B). The performance objective for the System is to exceed, after investment management fees, a customized blended benchmark. To evaluate success, the Board of Trustees will compare the performance of the System to the actuarial assumed rate of return and the performance of a custom benchmark. This benchmark represents a passive implementation of the historical investment policy targets and it is re-balanced regularly.

Risk Tolerance

While achieving the return objectives, the System is able to tolerate certain levels of risk, which are:

- (a) to accept prudent levels of short and long-term volatility consistent with the near-term cash flow needs, funding level, and long-term liability structure of the System,
- (b) to tolerate appropriate levels of downside risk relative to the System's actuarial assumed rate of return (see Addendum B). In doing so, the Board of the Trustees will attempt to minimize the probability of underperforming the System's actuarial assumed rate of return over the long-term and to minimize the shortfall in the event such underperformance occurs,
- (c) to accept prudent variances in the asset allocation structure of the System relative to the broad financial markets and peer groups, and

- (d) to tolerate prudent levels of short-term underperformance by the System's investment managers.

Constraints on the Investment Objectives

The investment objectives of the System are constrained by Federal law, State law, Section 203 of the Cincinnati Municipal Code, time, taxes, and liquidity. The System has a long-term time horizon as the assets are used to pay qualified participant and disability benefits. The System is a tax-exempt entity, but can be subject to taxes involving to unrelated business taxable income ("UBTI"). UBTI is income earned by a tax-exempt entity that does not result from tax-exempt activities. The liquidity needs of the System are to meet the regular cash flow requirements of the System.

Real Estate

The objective in real estate is to invest in multiple funds, primarily open-end funds to achieve a core-plus investment strategy with a low correlation to other asset classes. Closed-end funds may be utilized on a case by case basis. Multiple funds should be utilized to promote manager diversification, property diversification, and geographic diversification. A core-plus investment strategy will attempt to achieve a 2/3rd to 1/3rd ratio between core funds and value-added funds. International real estate should be considered for a portion of the total real estate allocation, not to exceed 25%.

Private Equity

The objective in private equity is to gain access to a low correlated asset class with historical outperformance of the U.S. equity markets. A fund-of-funds approach should be the main focus of investment, although direct funds may be utilized on a case by case basis. Fund of fund products should be well diversified between venture-capital, buy-out, and special situation strategies and consider non-U.S. investments. The private equity program should strive to maintain level vintage year allocations to minimize exposure to any particular economic environment.

Long-Short Equity

The objective in long-short equity is to achieve similar returns to U.S. equity markets with approximately one-half the standard deviation, allowing exposure to the equities with protection in down markets. Fund of fund products should be the main focus, with direct investments in long-short managers considered on a case by case basis. Fund of fund products will allow an extra layer of due diligence and increase oversight on long-short managers.

Infrastructure

The objective in infrastructure is to access a unique asset class with very strong risk and return characteristics through the best available products available in the marketplace. Both open-end and closed-end funds should be considered, as well as utilizing multiple managers.

Asset Allocation and Re-Balancing Procedures

General Methods and Frequency of Evaluating the Asset Allocation

The Board of Trustees, with the assistance of the investment consultant, will review the target asset allocation of the System at least every three years. They will take into consideration applicable statutes, the actuarial rate of return of the System, the long-term nature of the asset pool, the cash flow needs of the System, and the general asset allocation structure of their peers. They will make assumptions on the capital markets over the long-term and optimize the asset allocation to best meet the actuarial and cash flow needs of the System at a prudent level of risk.

Asset Allocation/Rebalancing

In January 2007, the Board of Trustees adopted the target asset allocation indicated in the following table. The minimum and maximum allocation range for each specific asset class is also shown in the table set forth below:

Asset Class	Target	Minimum*	Maximum*
Core Bonds	12.0%	10.0%	14.0%
High Yield Bonds	<u>5.0%</u>	3.0%	7.0%
Total Fixed Income	<u>17.0%</u>	13.0%	21.0%
All-Cap Core Equity	16.5%	13.0%	20.0%
All-Cap Value Equity	2.0%	1.0%	3.0%
Large-Cap Value Equity	10.0%	8.0%	12.0%
Large-Cap Growth Equity	5.0%	3.0%	7.0%
Mid-Cap Growth Equity	5.0%	3.0%	7.0%
Small-Cap Value Equity	<u>5.0%</u>	3.0%	7.0%
Total Domestic Equity	<u>43.5%</u>	31.0%	56.0%
International Core Equity	14.0%	11.0%	17.0%
International Small-Cap/E.M. Equity	<u>3.0%</u>	1.5%	4.5%
Total International Equity	<u>17.0%</u>	12.5%	21.5%
Real Estate Core Equity	5.0%	3.0%	7.0%
Real Estate Value-Added/Oppt. Eq.	<u>2.5%</u>	1.5%	3.5%
Total Real Estate Equity	<u>7.5%</u>	4.5%	10.5%
Infrastructure	<u>5.0%</u>	3.0%	7.0%
Total Infrastructure	<u>5.0%</u>	3.0%	7.0%
Long-Short Equity	<u>5.0%</u>	3.0%	7.0%
Total Long-Short Equity	<u>5.0%</u>	3.0%	7.0%
Private Equity	<u>5.0%</u>	0.0%	10.0%

Total Private Equity	<u>5.0%</u>	0.0%	10.0%
TOTAL	<u>100.0%</u>		

*May not equal 100%

The Board of Trustees, with the assistance of the investment consultant, will review the asset allocation of the System on a regular basis and adjust the portfolio to comply with the guidelines above. The Board of Trustees anticipates that the on-going natural cash flow needs of the System (contributions and withdrawals) will be sufficient to maintain the asset allocation of the System within policy guidelines under most market conditions.

Investment Professional Selection, Communication, and Evaluation

Investment Manager Selection

No investment managers shall be hired who are a party in interest or who have not, by their record and experience, demonstrated their fiduciary responsibility, their investment expertise, their investment experience, and their capacity to undertake the mandate for which they are being considered. Investment manager candidates must be GIPS® compliant and have a track record of at least three years. (The GIPS® compliance and three-year track record requirements do not apply to managers of real estate, private equity, infrastructure, and long/short equities.) The firm's GIPS® compliance must be audited at least every 4 years.

Investment managers are required to comply with the following:

- 1) Acknowledge in writing a fiduciary and investment manager relationship with respect to the System.
- 2) Be granted by the System the power to manage, acquire or dispose of any assets of the System pursuant to the System documents.

The System will establish investment guidelines for the investment managers and, with the assistance of the investment consultant, will conduct due diligence before the appointment of all investment managers.

Frequency of Measurement and Meetings

The Board of Trustees, with the assistance of the investment consultant, expects to measure investment performance quarterly.

Investment Manager Communication and Evaluation Terminology

The following terminology has been developed to facilitate efficient communication between the investment managers, investment consultant, and the program staff. Each term signifies a particular status with the System and any conditions that may require improvement. In each case, communication is made only after consultation with the Board of Trustees.

<u>STATUS</u>	<u>DESCRIPTION</u>
A. <i>"In Compliance"</i>	The investment manager is acting in accordance with the Investment Policy Guidelines.
B. <i>"Alert"</i>	The investment manager is notified of a problem in performance (usually related to a benchmark or volatility measure), a change in investment characteristics, an alteration in management style or key investment professionals, and/or any other irregularities. The investment manager will be completing a monthly compliance checklist from the investment consultant to ensure thorough oversight.
C. <i>"On Notice"</i>	The investment manager is notified of continued concern with one or more Alert issues. Failure to improve upon stated issues within a specific time frame justifies termination. The investment manager will be completing a monthly compliance checklist from the investment consultant to ensure thorough oversight.
D. <i>"Termination"</i>	The program's management has decided to terminate the investment manager. The investment manager is notified and transition plans are in place.

Operational Guidelines

Investment Policy Guidelines for the Investment-Grade Bond Manager(s)

This document contains the guidelines and restrictions that apply to the investment-grade bond manager(s) of the Pension Fund (see Addendum A).

Permissible Investments

1. No single issuer should comprise more than 5% of the market value of the portfolio, as determined at the time of purchase. The only exception is for securities issued by the U.S. Treasury, its agencies, instrumentalities or government sponsored entities (such as FNMA and FHLMC), and G-7 sovereigns.
2. Up to 10% of the market value of the portfolio may be invested in securities rated below investment grade defined as follows: Securities are classified as “below investment grade” if the middle rating is below BBB- (S&P), Baa3 (Moody’s), or BBB- (Fitch). A security is classified as “investment grade” if the middle rating is BBB-/Baa3/BBB- or higher. If a security is rated by fewer than 3 agencies, the lower rating will apply. If an issue is not rated by any of these agencies, then the manager will determine a rating. If an investment grade security already held in the portfolio is downgraded to below investment and a breach of the 10% limit occurs, prompt client notification is required concerning intent to hold the issue going forward. The minimum average portfolio quality shall be A-.
3. At least 75% of the market value of the portfolio must be invested in U.S. dollar denominated securities, counting cash and cash equivalents toward this percentage, as determined at the time of purchase. Included in this limit are U.S. dollar denominated securities issued in the U.S. by foreign domiciled issuers and traded in U.S. markets. Non-U.S. dollar denominated bonds may be held up to 25% of the portfolio.
4. Effective currency exposure is limited to a maximum of 5% of portfolio market value. This includes direct currency exposure (long and short foreign currency positions held without owning securities denominated in such currencies).
5. Emerging market debt (defined using the World Bank definition, which is based on GNP per capita) is limited to 10% of portfolio market value.
6. In aggregate, investment in convertible, convertible preferred and preferred securities (including trust preferreds) may not exceed 25% of the market value of the portfolio, as determined at the time of purchase.
7. Common stock may only be held if it is acquired as a result of a financial restructuring, bankruptcy or from an exchange or conversion of a permissible security held in the portfolio. Manager will provide notification concerning the intent to hold the issue going forward.

8. The portfolio may invest up to 35% of the market value of the portfolio, as determined at the time of purchase, in securities issued pursuant to Rule 144(a), including those issued with and without registration rights. Non-144A private placements and bank loans are allowed up to a maximum of 10% of portfolio market value.
9. Eligible securities include contracts to buy or sell futures on securities, indices, interest rates and currencies (“Futures”); structured notes; forward contracts for securities, indices, interest rates and currencies; credit default swaps (long and short) and swap contracts on indices, interest rates and currencies (“Swaps”); put and call options on securities, indices, interest rates, Futures, Swaps, and currencies (“Options”), foreign currency exchange contracts, and senior loans. Futures cannot be used for borrowing purposes. Additionally, there is a 50% notional limit on futures.
10. Put and call options on exchange-traded options on Treasury Futures may be written if they are fully covered. Call options are considered covered if the manager owns an amount equal to the exercise cost in high-quality fixed income securities (A- rated or higher) with maturities that are comparable to the maturities in the deliverable basket for the Treasury futures contract. Put options are considered covered if cash equivalent assets in an amount equal to the exercise cost are maintained in the account. Managers may purchase back options on exchange-traded Treasury future contracts in order to close out positions. The aggregate value of each manager’s option positions shall not exceed 25% of the account’s market value.
11. The average effective duration of the portfolio is not to vary more than +/-25% of the duration of the portfolio’s benchmark index.
12. The manager may hold up to 15% of its portfolio in cash. The only exception to this rule is during trading activity associated with the initial start-up phase of the portfolio. The portfolio should be fully-invested and construction completed within 60 days of the start date. The manager is not responsible for investments made pursuant to any cash sweep arrangement with the custodian.
13. If any of the parameters described above are breached as a result of market movements, capital additions, or withdrawals, the manager shall have a reasonable period, not to exceed sixty (60) days, to bring the portfolio into compliance with the applicable investment guidelines. The manager must receive written permission to permit such a breach to continue past this 60-day window.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio’s return net of fees should exceed the return of the appropriate benchmark index (see Addendum A).

Investment Policy Guidelines for the High Yield Bond Manager(s)

This document contains the guidelines and restrictions that apply to the high yield bond manager of the System (see Addendum A).

Permissible Investments

1. The high yield bond manager may invest in performing and non-performing loans, and is hereby permitted to effectuate such investments through an investment in the Credos Floating Rate Fund, L.P., not to exceed 35% of the market value of the portfolio, as determined at the time of purchase.
2. No single issuer should comprise more than 5% of the portfolio's overall allocation after accounting for price appreciation, provided, however, that this limitation shall not apply to the portfolio's investment in (a) the Credos Floating Rate Fund, L.P., and (b) securities issued by the U.S. Treasury, its agencies, instrumentalities or government sponsored entities (such as FNMA and FHLMC). No industry, except securities issued by the U.S. Treasury, its agencies, instrumentalities or government sponsored entities may exceed 25% of the market value of the portfolio, as determined at the time of purchase.
3. The average quality of the overall portfolio should be rated no less than B as defined below. Securities are classified based on the rating of at least two out of the following three agencies: S&P, Moody's, and Fitch.
4. The average duration of the portfolio is not to vary more than +/-30% of the duration of the portfolio's benchmark index.
5. Non-U.S. dollar securities, derivatives (excluding CMO's), options, financial futures, private placements, common stock or venture capital may not be purchased or held. This prohibition on private placements shall not apply to the portfolio's investment in the Credos Floating Rate Fund, L.P.
6. The combined holdings of preferred stock, convertible bonds, and closed-end bond funds may not exceed 25% of the portfolio's overall asset allocation.
7. The portfolio may invest up to 60% of the market value of the portfolio, as determined at the time of purchase, in securities issued pursuant to Rule 144(a), including those issued with and without registration rights.
8. The manager may hold up to 10% of its portfolio in cash. The only exception to this rule is during trading activity associated with the initial start-up phase of the portfolio. The portfolio should be fully-invested and construction completed within 60 days of the start date. The manager is not responsible for investments made pursuant to any cash sweep arrangement with the custodian.

9. If any of the parameters described above are breached as a result of market movements, capital additions, or withdrawals, the manager shall have a reasonable period, not to exceed sixty (60) days, to bring the portfolio into compliance with the applicable investment guidelines. The manager must receive written permission to permit such a breach to continue past this 60-day window. .

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should exceed the return of the appropriate benchmark index (see Addendum A).

Investment Policy Guidelines for the Separately-Managed, U.S. Equity Manager(s)

This document contains the guidelines and restrictions that apply to the separately-managed equity manager(s) of the System (see Addendum A).

Permissible Investments

1. The manager may hold up to 5% of its portfolio in a money market and/or cash. The only exception to this rule is during trading activity, which can only be maintained for very short time periods, i.e. less than 30 days.
2. Options, financial futures, private placements, restricted stock, issues related to the investment manager, or venture capital may not be purchased. The purchase of securities on margin and short selling is prohibited.
3. No investments should be made in securities not traded on an U.S. exchange or traded in U.S. dollars.
4. The combined holdings of preferred stocks and convertible bonds shall not exceed 5% of the portfolio.
5. No single security in the manager's portfolio, including Exchange Traded Funds, will comprise more than 10% of the portfolio at market.
6. Investments in Rule 144a securities are permitted if the securities have registration rights requiring the issuer to swap the securities for fully registered publicly traded bonds and if the investment is otherwise consistent with the above guidelines. The combined holdings of these investments may not exceed 10% of the portfolio's overall asset allocation.
7. At no point in time should the aggregate position (within each equity manager's portfolio in the System) in any company exceed 1% of the fair market value of the outstanding stock in the company.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should exceed the return of the appropriate benchmark index (see Addendum A).

Investment Policy Guidelines for the International Equity Manager(s)

This document contains the guidelines and restrictions that apply to the international equity manager(s) of the System (see Addendum A).

Permissible Investments

1. The manager may hold up to 5% of its portfolio in a money market and/or cash. The only exception to this rule is during trading activity, which can only be maintained for very short time periods, i.e. less than 30 days.
2. Options, financial futures, private placements, restricted stock, issues related to the investment manager, or venture capital may not be purchased. The purchase of securities on margin and short selling is prohibited.
3. The maximum investment in stocks trading on any U.S. exchange or traded in U.S. dollars, excluding ADRs, is 10% of the portfolio at market.
4. The combined holdings of preferred stocks and convertible bonds shall not exceed 5% of the portfolio.
5. No single security in the manager's portfolio, including Exchange Traded Funds, will comprise more than 10% of the portfolio at market.
6. Investments in Rule 144a securities are permitted if the securities trade on a recognized exchange; are fully fungible with securities traded on a recognized exchange; or will be, when seasoned, fully fungible with securities traded on a recognized exchange, provided that the investment is otherwise consistent with the other guidelines. The combined holdings of these investments may not exceed 10% of the portfolio's overall asset allocation.
7. At no point in time should the aggregate position (within each equity manager's portfolio in the System) in any company exceed 1.5% of the fair market value of the outstanding stock in the company.
8. Currency hedging for defensive purposes will be permitted. Forward currency contracts may be used to hedge currencies. This includes hedging back into the base currency. Cross currency hedging is permitted.
9. The combined holdings of non-EAFE countries, excluding Canada, stocks and convertible bonds shall not exceed 30% of the portfolio at market.
10. The combined holdings of Canada stocks and convertible bonds shall not exceed 15% of the portfolio at market.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should exceed the return of the appropriate benchmark index (see Addendum A).

Investment Policy Guidelines for the Small-Cap International and Emerging Markets Manager(s)

This document contains the guidelines and restrictions that apply to the small-cap international and emerging markets manager(s) of the System (see Addendum A).

Permissible Investments

1. These funds are governed by the guidelines and restrictions contained in any of the following applicable documents: prospectus', subscription agreements, limited partnership agreements, and confidential information memorandums.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should exceed the return of the appropriate benchmark index (see Addendum A).

Investment Policy Guidelines for the Real Estate Manager(s)

This document contains the guidelines and restrictions that apply to the real estate manager(s) of the System (see Addendum A).

Permissible Investments

1. This fund is governed by the guidelines and restrictions contained in its prospectus or participations agreement.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should exceed the return of the appropriate benchmark index (see Addendum A).

Investment Policy Guidelines for the Private Equity Manager(s)

This document contains the guidelines and restrictions that apply to the private equity manager(s) of the System (see Addendum A).

Permissible Investments

1. This fund is governed by the guidelines and restrictions contained in its prospectus or participations agreement.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should exceed the return of the appropriate benchmark index (see Addendum A).

Investment Policy Guidelines for the Long-Short Equity Manager(s)

This document contains the guidelines and restrictions that apply to the long-short manager(s) of the System (see Addendum A).

Permissible Investments

1. This fund is governed by the guidelines and restrictions contained in its prospectus or participations agreement.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should exceed the return of the appropriate benchmark index (see Addendum A).

Investment Policy Guidelines for the Infrastructure Manager(s)

This document contains the guidelines and restrictions that apply to the infrastructure manager(s) of the System (see Addendum A).

Permissible Investments

1. This fund is governed by the guidelines and restrictions contained in its prospectus or participations agreement.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should exceed the return of the appropriate benchmark index (see Addendum A).

Investment Policy Guidelines for the Cash Equitization Manager

This document contains the guidelines and restrictions that apply to the cash equitization manager of the System (see Addendum A).

Permissible Investments

1. The cash equitization program is governed by Addendum B.

Investment Objective

The cash equitization program should maintain a futures program for unallocated cash and cash reserves in accordance with the guidelines set forth in Addendum B.

Investment Policy Modification and Revision

Policy Modification

The Board of Trustees, with the assistance of the investment consultant, will review this Policy annually. Key environmental or operational occurrences, which could result in a Policy modification, include:

- (1) significant changes in expected patterns of the System's liability stream,
- (2) impractical time horizons or changes,
- (3) change in the System's priorities,
- (4) convincing arguments for change presented by investment professionals,
- (5) legislation, and
- (6) areas found to be important, but not covered by the Policy.

Modification of Addendums

Changes to investment professionals, Trustees, or plan information contained within Addendums A-D can and should be modified, as necessary, without a complete review by all Trustees.

Addendum A

Defining the Investment Professionals and Benchmark Indexes

<u>Asset Class</u>	<u>Investment Manager</u>	<u>Benchmark Index</u>
Core Bonds	Blackrock	LB Aggregate Bond
Core Bonds	PIMCO	LB Aggregate Bond
High Yield Bonds	Shenkman	LB High Yield Bond
Enhanced Core U.S. Equity	Allegiant	Russell 3000
Enhanced Core U.S. Equity	PanAgora	Russell 3000
Value U.S. Equity	Bartlett	Russell 3000 Value
U.S. Large-Cap Value Equity	Gradison	Russell 1000 Value
U.S. Large-Cap Value Equity	Rhumblin	Russell 1000 Value
U.S. Large-Cap Growth Equity	Montag & Caldwell	Russell 1000 Growth
U.S. Mid-Cap Growth Equity	Rhumblin	Russell Mid-Cap Growth
U.S. Mid-Cap Growth Equity	Turner	Russell Mid-Cap Growth
U.S. Small-Cap Value Equity	Opus	Russell 2000 Value
U.S. Small-Cap Value Equity	WCM	Russell 2000 Value
Non-U.S. Core Equity	Harding Loevner	MSCI EAFE
Non-U.S. Core Equity	Mondrian	MSCI EAFE
Emerging Market Equity	Mondrian	MSCI Emerging Market
Non-U.S. Small-Cap	Dimensional Fund Advisors	Citi ex-U.S. < \$2 Billion
Real Estate – Core	Morgan Stanley	NCREIF
Real Estate – Core	J.P. Morgan	NCREIF
Real Estate – Value Added	Prudential	NCREIF
Real Estate – Value Added	Principal	NCREIF
Real Estate – Non U.S.	Mesirow/Courtland	NCREIF
Private Equity Fund of Funds	Fort Washington	V.E. All-Private Equity
Private Equity Fund of Funds	Piper Jaffrey	V.E. All-Private Equity
Private Equity Fund of Funds	Portfolio Advisors	V.E. All-Private Equity
Infrastructure	Macquarie	LIBOR + 4%
Infrastructure	Alinda	LIBOR + 4%
Long-Short Equity	CommonSense	80% Russell 3000
Long-Short Equity	ABS	80% Russell 3000

<u>Investment Professional</u>	<u>Service Provider</u>
Custodian	Fifth Third Bank/Bank of New York
Investment Consultant	Marquette Associates
Cash Equitization Manager	The Clifton Group
Securities Lending Provider	Fifth Third Bank/Bank of New York
Commission Re-capture Agent	Abel Noser
Commission Re-capture Agent	BoNY/Lynch Jones & Ryan

Commission Re-capture Agent	C.L. Glazer
Commission Re-capture Agent	Frank Russell
Third Party Proxy Voting Service Provider	None

Addendum B

CRS will select the assets to be overlaid by Clifton's PIOS program. Specifically, that portion shall consist of those funds designated by Client as cash reserves at its custodian as well as cash held from time to time by other investment managers for Client (the manager portfolio(s))

The asset class allocation targets and associated benchmark indexes are as follows:

<u>Asset Class</u>	<u>Target %</u>	<u>Benchmark Index</u>
Domestic Equity	43.5%	Russell 3000
International Equity	17.0%	MSCI EAFE
Fixed Income	17.0%	Lehman Brothers Aggregate
Alternative Assets	<u>22.5%</u>	N/A
Total	100.0%	

It is Client's responsibility to establish and revise as necessary the asset class categories.

INVEST UNALLOCATED CASH COMPONENT:

Unallocated cash will be synthetically invested as follows:

<u>Asset Class</u>	<u>Target %</u>	<u>Benchmark Index</u>
Domestic Equity	53.5%	Russell 3000
International Equity	17.0%	MSCI EAFE
Fixed Income	<u>29.5%</u>	Lehman Brothers Aggregate

Addendum C – Summary of Plan Information

Plan Name:	<u>City of Cincinnati Retirement System</u>
Type of Plan:	<u>Defined Benefit</u>
Plan Adoption Date:	<u>1931</u>
Plan Year-End Date:	<u>December 31st</u>
Assumed Actuarial Rate of Return (Net-of-fees):	<u>8.00%</u>

Addendum D – Investment Professional Adoption of Policy

This Policy document was adopted by the Board of Trustees for the Cincinnati Retirement System on December 6, 2007.

Investment Professional's Acknowledgments:

The firm has received this copy of the System's Investment Policy. The firm has studied its' provisions and believe that we can both abide by its restrictions and fulfill its goals and expectations over the timetables set forth in the Policy.

Firm Name

Investment Professional

Addendum E – Board of Trustees Adoption of Policy

This Policy document was adopted by the Board of Trustees for the System on December 6, 2007.

Board of Trustees' Acknowledgments:

The Board of Trustees of the Cincinnati Retirement System has approved the Plan's investment policy.

Joe Gray
Secretary of the CRS Board of Trustees

Investment Manager Status Report

<u>Investment Manager</u>	<u>Asset Class</u>	<u>Benchmark</u>	<u>Status</u>	<u>Reason</u>
Blackrock	Core Fixed Income	BarCap Aggregate	In-Compliance	
PIMCO	Core Fixed Income	BarCap Aggregate	Alert	Performance
Shenkman	High Yield Fixed Income	BarCap High Yield	In-Compliance	
Allegiant	All-Cap Core Equity	Russell 3000	Alert	Organizational Issues
PanAgora	All-Cap Core Equity	Russell 3000	Alert	Organizational Issues
Bartlett	All-Cap Value Equity	Russell 3000 Value	In-Compliance	
Gradison	Large-Cap Value Equity	Russell 1000 Value	In-Compliance	
Rhumblin	Large-Cap Value Equity	Russell 1000 Value	In-Compliance	
Montag & Caldwell	Large-Cap Growth Equity	Russell 1000 Growth	Alert	Organizational Issues
Rhumblin	Mid-Cap Growth Equity	Russell MidCap Growth	In-Compliance	
Turner	Mid-Cap Growth Equity	Russell MidCap Growth	In-Compliance	
Opus	Small-Cap Value Equity	Russell 2000 Value	In-Compliance	
WCM	Small-Cap Value Equity	Russell 2000 Value	In-Compliance	
Mondrian	International Value	MSCI EAFE	In-Compliance	
Harding Loevner	International Core	MSCI EAFE	Alert	Organizational Issues
DFA	International Small Value	Citigroup ex. US <\$2 Billion	In-Compliance	
Mondrian - EM	Emerging Markets	MSCI Emerging Markets	In-Compliance	
J.P. Morgan SPF	Real Estate Core	NCREIF	In-Compliance	
Morgan Stanley P.P.	Real Estate Core	NCREIF	In-Compliance	
PRISA III	Real Estate Value-Added	NCREIF	In-Compliance	
Principal Enhanced	Real Estate Value-Added	NCREIF	In-Compliance	
Mesirow/Courtland I	Real Estate - Non U.S.	NCREIF	In-Compliance	
ABS Global	Long/Short Equity	80% Russell 3000	In-Compliance	
Common Sense	Long/Short Equity	80% Russell 3000	In-Compliance	
Blue Chip II	Private Equity Venture	VE All Private Equity	In-Compliance	
Blue Chip III	Private Equity Venture	VE All Private Equity	In-Compliance	
Blue Chip IV	Private Equity Venture	VE All Private Equity	In-Compliance	
Fort Washington Fund VI	Private Equity FoFs Specialized	VE All Private Equity	In-Compliance	
Fort Washington Fund V	Private Equity FoFs Specialized	VE All Private Equity	In-Compliance	
Piper Jaffray III - LBO	Private Equity Buy-Out	VE All Private Equity	In-Compliance	
Piper Jaffray III - VC	Private Equity Venture	VE All Private Equity	In-Compliance	
Piper Jaffray IV - LBO	Private Equity Buy-Out	VE All Private Equity	In-Compliance	
Piper Jaffray IV - VC	Private Equity Venture	VE All Private Equity	In-Compliance	
Portfolio Advisors V - Special Sit	Private Equity FoFs Specialized	VE All Private Equity	In-Compliance	
Portfolio Advisors IV - Special Sit	Private Equity FoFs Specialized	VE All Private Equity	In-Compliance	
Alinda II	Infrastructure	LIBOR + 4%	In-Compliance	
Macquarie II	Infrastructure	LIBOR + 4%	In-Compliance	

Investment Manager Evaluation Terminology

The following terminology has been developed by Marquette Associates to facilitate efficient communication among the Investment Manager, Investment Consultant, and the Plan Sponsor. Each term signifies a particular status with the Fund and any conditions that may require improvement. In each case, communication is made only after consultation with the Trustees and/or the Investment Committee of the Plan.

In-Compliance – The investment manager states it is acting in accordance with the Investment Policy Guidelines

Alert – The investment manager is notified of a problem in performance (usually related to a benchmark or volatility measure), a change in investment characteristics, an alteration in management style or key investment professionals, and/or any other irregularities.

On Notice – The investment manager is notified of continued concern with one or more Alert issues. Failure to improve upon stated issues within a specific time frame justifies termination.

Termination – The Trustees have decided to terminate the investment manager. The investment manager is notified and transition plans are in place.



February 11, 2009

I am pleased to announce a milestone for Allegiant Asset Management Company's integration into our new parent, The PNC Financial Services Group, Inc. (PNC). Over the course of the coming months, we will combine the asset management businesses of Allegiant Asset Management Company and PNC Capital Advisors, Inc. (PNC Capital Advisors), into a single organization. I will be leading the newly formed Registered Investment Adviser and look forward to capitalizing on the synergies of both firms to benefit our clients.

Once the two entities have been merged, we expect the combined organization will have approximately \$41 billion in assets under management.

We are excited about this opportunity and have no doubt our clients will benefit from our collective expertise and capabilities. PNC Capital Advisors manages approximately \$12.9 billion in assets (as of 12/31/08), and, along with PNC and its affiliates, has a 175-year legacy of providing asset management services. Combined with Allegiant's \$27.7 billion in assets under management (as of 12/31/08), the merged entity will have access to a greater depth of resources to offer the institutional marketplace.

I look forward to continuing to share information with you during the coming months as we bring our two organizations together.

As always, please let me or your contact know if you have any questions or would like to share thoughts. Thank you for your business as well as the confidence you continue to place in us.

Warm Regards,

A handwritten signature in black ink that reads "John Abunassar".

John Abunassar
President
Allegiant Asset Management Company

<u>SecurityID</u>	<u>Descr.</u>	<u>Repo Description</u>	<u>S+P's</u>	<u>Moody's</u>	<u>Rate(%)</u>	<u>Settlement Date</u> <u>Next Reset</u>	<u>Maturity</u>	<u>DTR</u> <u>Mat</u>	<u>Par Amount</u> <u>Face Value</u>	<u>Purchase Cost</u>	<u>Amortized Cost</u>	<u>Yield(%)</u>	<u>Market</u> <u>Price</u>	<u>Market Value</u>	<u>Unrealized</u> <u>Gain/Loss</u>	<u>% of</u> <u>Total</u>
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**SECURITIES LENDING DIVISION
PRICING DISCLOSURES**

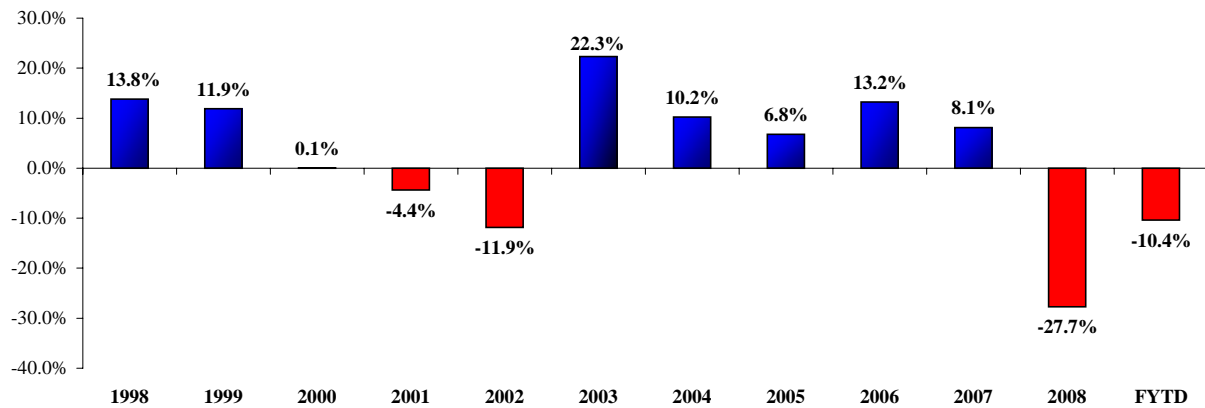
City of Cincinnati Retirement System

**Investment Report
2/28/09-3/31/09**



Market Values March 31, 2009				Annualized Performance February 28, 2009								
Asset Class	Market Values	Allocation	Target	1 Mon.	YTD	1 Yr	2 Yr	3 Yr	4 Yr	5 Yr	7 Yr	10 Yr
Total Fixed Income	\$310,661,380	19.1%	17.0%	-0.9%	0.7%	-5.4%	-0.4%	2.0%	2.3%	2.8%	4.4%	4.9%
Total U.S. Equity	\$675,528,746	41.6%	43.5%	-10.8%	-18.2%	-42.7%	-25.3%	-13.8%	-9.0%	-5.2%	-3.7%	-2.5%
Total International Equity	\$261,580,749	16.1%	17.0%	-8.4%	-17.1%	-46.4%	-25.1%	-10.6%	-4.8%	-0.9%	0.0%	-1.0%
Total Real Estate ¹	\$153,376,344	9.4%	7.5%	-0.6%	-0.6%	-8.6%	---	---	---	---	---	---
Total Long/Short Equity ¹	\$114,123,090	7.0%	5.0%	1.0%	2.2%	-16.1%	---	---	---	---	---	---
Total Private Equity ²	\$73,754,808	4.5%	5.0%	See Page 6	---	---	---	---	---	---	---	---
Total Infrastructure	\$34,212,606	2.1%	5.0%	See Page 6	---	---	---	---	---	---	---	---
Total Cash Equivalents	\$314,991	0.0%		---	---	---	---	---	---	---	---	---
TOTAL PORTFOLIO	\$1,623,552,714	100.0%	100.0%	-5.9%	-10.4%	-31.4%	-16.7%	-7.5%	-4.1%	-1.4%	0.1%	0.7%

Fiscal Year Returns



¹Market Values of 2/28/09.

²Market Values of 12/31/08 including 2009 capital calls and distributions.

Market Values

March 31, 2009

Asset Class	Investment Manager	Market Values	Allocation	Target
Core Fixed Income	Blackrock	\$106,019,166	6.5%	6.0%
Core Fixed Income	PIMCO	\$101,286,112	6.2%	6.0%
High Yield Fixed Income	Shenkman	<u>\$103,356,098</u>	<u>6.4%</u>	<u>5.0%</u>
Total Fixed Income		\$310,661,380	19.1%	17.0%
All-Cap Core Equity	Allegiant	\$127,045,857	7.8%	8.3%
All-Cap Core Equity	PanAgora	\$127,444,450	7.8%	8.3%
All-Cap Value Equity	Bartlett	\$32,839,193	2.0%	2.0%
Large-Cap Value Equity	Gradison	\$90,766,840	5.6%	6.0%
Large-Cap Value Equity	Rhumblin	\$45,719,165	2.8%	4.0%
Large-Cap Growth Equity	Montag & Caldwell	\$109,535,098	6.7%	5.0%
Mid-Cap Growth Equity	Rhumblin	\$46,339,915	2.9%	2.5%
Mid-Cap Growth Equity	Turner	\$29,497,411	1.8%	2.5%
Small-Cap Value Equity	Opus	\$32,044,478	2.0%	2.5%
Small-Cap Value Equity	WCM	\$31,781,807	2.0%	2.5%
Cash Equitization	Clifton Group	<u>\$2,513,247</u>	<u>0.2%</u>	<u>0.0%</u>
Total U.S. Equity		\$675,528,746	41.6%	43.5%
International Value	Mondrian	\$108,609,076	6.7%	7.0%
International Core	Harding Loevner	\$113,103,011	7.0%	7.0%
International Small Value	DFA	\$26,630,985	1.6%	2.0%
Emerging Markets	Mondrian - EM	\$13,237,677	0.8%	1.0%
Total International Equity		\$261,580,749	16.1%	17.0%
Real Estate Core	J.P. Morgan SPF	\$57,876,818	3.6%	2.5%
Real Estate Core	Morgan Stanley P.P.	\$64,050,373	3.9%	2.5%
Real Estate Value-Added	PRISA III	\$9,006,101	0.6%	0.9%
Real Estate Value-Added	Principal Enhanced	\$18,903,564	1.2%	0.8%
Real Estate - Non U.S.	Mesirow/Courtland I	<u>\$3,539,488</u>	<u>0.2%</u>	<u>0.8%</u>
Total Real Estate		\$153,376,344	9.4%	7.5%
Long/Short Equity	ABS Global	\$58,463,860	3.6%	2.5%
Long/Short Equity	Common Sense	<u>\$55,659,230</u>	<u>3.4%</u>	<u>2.5%</u>
Total Long/Short Equity		\$114,123,090	7.0%	5.0%
Private Equity Venture	Blue Chip I	\$0	0.1%	---
Private Equity Venture	Blue Chip II	\$975,975	0.1%	---
Private Equity Venture	Blue Chip III	\$1,524,639	0.1%	---
Private Equity Venture	Blue Chip IV	\$16,265,654	1.0%	---
Private Equity FoFs Specialized	Fort Washington Fund V	\$15,435,066	1.0%	---
Private Equity FoFs Specialized	Fort Washington Fund VI	\$4,256,917	0.3%	---
Private Equity Buy-Out	Piper Jaffray III - LBO	\$11,794,547	0.7%	---
Private Equity Venture	Piper Jaffray III - VC	\$5,486,803	0.3%	---
Private Equity Buy-Out	Piper Jaffray IV - LBO	\$941,250	0.1%	---
Private Equity Venture	Piper Jaffray IV - VC	\$3,716,250	0.2%	---
Private Equity FoFs Specialized	Portfolio Advisors IV - Special Sit	\$11,467,449	0.7%	---
Private Equity FoFs Specialized	Portfolio Advisors V - Special Sit	<u>\$1,890,258</u>	<u>0.1%</u>	<u>---</u>
Total Private Equity		\$73,754,808	4.5%	5.0%
Infrastructure	Alinda II	\$740,978	0.0%	2.5%
Infrastructure	Macquarie II	<u>\$33,471,628</u>	<u>2.1%</u>	<u>2.5%</u>
Total Infrastructure		\$34,212,606	2.1%	5.0%
Cash Short-Term	Transition	\$0	0.0%	---
Cash Short-Term	Cash	\$27	0.0%	---
Cash Short-Term	Cash - Securities Lending	<u>\$314,964</u>	<u>0.0%</u>	<u>---</u>
Total Cash Equivalents		\$314,991	0.0%	
TOTAL PORTFOLIO		\$1,623,552,714	100.0%	100.0%

Annualized Performance (Gross of Fees)
February 28, 2009

	1 Month	YTD	1 Year	2 Year	3 Year	4 Year	5 Year
Fixed Income							
Blackrock	-1.3%	-1.0%	-4.4%	0.8%	2.4%	2.5%	2.7%
PIMCO	-1.8%	-3.8%	-7.7%	-0.9%	1.4%	2.1%	2.2%
<i>LB Aggregate</i>	-0.4%	-1.3%	2.1%	4.7%	4.9%	4.4%	4.0%
Shenkman	0.4%	8.0%	-4.0%	-2.2%	1.6%	2.2%	3.6%
<i>LB High Yield</i>	-3.1%	2.7%	-22.1%	-13.2%	-5.5%	-3.3%	-0.6%
U.S. Equity							
Allegiant	-10.3%	-17.7%	-42.9%	-26.2%	---	---	---
PanAgora	-10.4%	-17.9%	-43.1%	-26.2%	-15.1%	-9.3%	-6.1%
<i>Russell 3000</i>	-10.5%	-18.0%	-43.5%	-26.6%	-15.5%	-9.6%	-6.4%
Bartlett	-10.8%	-20.1%	-45.7%	-27.5%	-15.2%	-9.1%	-5.2%
<i>Russell 3000 Value</i>	-13.4%	-23.6%	-47.0%	-30.5%	-17.4%	-11.2%	-6.7%
Gradison	-13.9%	-21.4%	-41.5%	-24.8%	-12.7%	-7.5%	-3.8%
Rhumblin	-13.3%	-23.2%	-47.0%	-30.2%	---	---	---
<i>Russell 1000 Value</i>	-13.4%	-23.3%	-47.4%	-30.4%	-17.3%	-11.2%	-6.7%
Montag & Caldwell	-7.6%	-12.8%	-34.0%	-14.8%	-7.9%	-4.2%	-2.9%
<i>Russell 1000 Growth</i>	-7.5%	-12.0%	-40.0%	-22.4%	-13.4%	-8.1%	-6.4%
Rhumblin	-7.6%	-11.8%	-45.7%	-27.2%	---	---	---
Turner	-7.3%	-13.5%	---	---	---	---	---
<i>Russell MidCap Growth</i>	-7.6%	-11.8%	-45.8%	-27.3%	-16.7%	-9.2%	-5.7%
Opus	-13.4%	-20.1%	---	---	---	---	---
WCM	-11.6%	-22.2%	---	---	---	---	---
<i>Russell 2000 Value</i>	-13.9%	-26.2%	-43.0%	-31.3%	-18.6%	-11.1%	-6.6%
International							
Mondrian	-10.1%	-19.4%	-45.0%	-24.8%	-11.1%	-4.8%	---
Harding Loevner	-6.3%	-15.1%	-46.0%	-23.9%	-11.7%	-4.1%	---
<i>MSCI EAFE</i>	-10.2%	-19.0%	-49.9%	-28.8%	-14.9%	-7.7%	-2.8%
DFA	-11.0%	-18.5%	-50.2%	---	---	---	---
<i>Citigroup < \$2 Bill ex U.S.</i>	-8.0%	-13.4%	-52.9%	-29.0%	-15.8%	-7.4%	-1.2%
Mondrian - EM	-5.8%	-11.9%	-50.2%	---	---	---	---
<i>MSCI Emerging Markets</i>	---	---	---	---	---	---	---

Annualized Performance (Gross of Fees)
February 28, 2009

	1 Month	YTD	1 Year	2 Year	3 Year	4 Year	5 Year
Real Estate							
J.P. Morgan SPF	-1.5%	-1.6%	-10.1%	---	---	---	---
Morgan Stanley P.P.	---	---	-3.6%	---	---	---	---
PRISA III	---	---	-18.7%	---	---	---	---
Principal Enhanced	---	---	-15.0%	---	---	---	---
Mesirow/Courtland I	---	---	-20.0%	---	---	---	---
<i>NCREIF</i>	---	---	---	---	---	---	---
Long/Short Equity							
ABS Global	1.2%	1.7%	-14.7%	---	---	---	---
Common Sense	0.6%	2.5%	-17.5%	---	---	---	---
<i>Custom Benchmark (80% R3000)</i>	-8.4%	-14.4%	-34.8%	-21.3%	-12.4%	-7.7%	-5.1%
Total Fund Composite							
<i>Policy Benchmark</i> ¹	-6.6%	-11.6%	-32.0%	-17.4%	-8.3%	-3.9%	-1.3%
<i>Target Benchmark</i> ²	-6.7%	-11.6%	-32.0%	-17.4%	-8.3%	-3.9%	-1.3%

¹As of 8/31/08 the Policy Benchmark consists of 14% the LB Aggregate, 6% LB High Yield, 17% the Russell 3000, 3% Russell 3000 Value, 10% the Russell 1000 Value, 7% Russell 1000 Growth, 3% Russell MidCap Growth, 7% Russell 2000 Value, 3% VE all Private Equity, 7% NCREIF, 15% MSCI EAFE Index, 1% MSCI Emerging Markets, 2% Citigroup Intl. < \$2 Billion, and 5% HFR Hedged Equity Index.

²As of 1/31/07, the Target Benchmark consists of 12% the LB Aggregate, 5% LB High Yield, 16% the Russell 3000, 2% Russell 3000 Value, 6% the Russell 1000 Value, 5% Russell 1000 Growth, 5% Russell MidCap Growth, 5% Russell 2000 Value, 14% MSCI EAFE Index, 2% Citigroup Intl. < \$2 Billion, 1% MSCI Emerging Markets, 5% HFRI Hedged Equity Index, 8% NCREIF Property Index, 5% the VE Private Equity Index, and 5% the ML LIBOR + 4%. Prior to 1/31/07, the Target Benchmark consisted of 21% LB Aggregate, 5% LB High Yield, 10% Russell 3000, 2% Russell 3000 Value, 19% Russell 1000 Value, 15% Russell 1000 Growth, 4% Russell 2500 Value, 2% Russell 2000 Growth, 17% MSCI EAFE, and 5% VE Private Equity.

Private Equity/Infrastructure Data (As of 12/31/08)¹

Asset Class	IM	Date Funded	Committed	Called	Distributed	Fees	Capital Balance	IRR Since Inception	
								Cumulative	Annualized
Private Equity Venture	Blue Chip I	07/01/93	\$4,000,000	\$4,000,000	\$6,314,076	\$742,000	\$0	517.35%	13.40%
Private Equity Venture	Blue Chip II	08/01/97	\$10,000,000	\$10,000,000	\$8,213,618	\$1,948,768	\$975,975	-25.30%	-1.54%
Private Equity Venture	Blue Chip III	11/01/99	\$15,000,000	\$15,000,000	\$3,770,047	\$2,469,936	\$1,524,639	-84.49%	-17.03%
Private Equity Venture	Blue Chip IV	12/01/00	\$25,000,000	\$25,000,000	\$10,648,089	\$4,310,695	\$16,265,654	16.75%	1.78%
Private Equity FoFs Specialized	Fort Washington Fund V	09/01/07	\$40,000,000	\$17,476,717	\$0	\$0	\$15,435,066	-18.16%	-9.27%
Private Equity FoFs Specialized	Fort Washington Fund VI	09/01/08	\$30,000,000	\$4,200,000	\$0	\$0	\$4,256,917	2.16%	---
Private Equity Buy-Out	Piper Jaffray III - LBO	05/01/07	\$20,000,000	\$13,000,017	\$69,581	\$462,257	\$11,794,547	-13.84%	-8.53%
Private Equity Venture	Piper Jaffray III - VC	05/01/07	\$20,000,000	\$5,833,339	\$125,280	\$530,928	\$5,486,803	-5.57%	-3.37%
Private Equity Buy-Out	Piper Jaffray IV - LBO	09/01/08	\$15,000,000	\$975,000	\$0	\$33,750	\$941,250	-7.22%	---
Private Equity Venture	Piper Jaffray IV - VC	06/01/08	\$15,000,000	\$3,750,000	\$0	\$16,875	\$3,716,250	-1.40%	---
Private Equity FoFs Specialized	Portfolio Advisors IV - Special Sit	06/01/07	\$20,000,000	\$12,385,980	\$0	\$0	\$11,467,449	-5.87%	1.01%
Private Equity FoFs Specialized	Portfolio Advisors V - Special Sit	09/01/08	\$10,000,000	\$3,137,784	\$0	\$0	\$1,890,258	-41.61%	---
Infrastructure	Alinda II ²	08/01/08	\$60,000,000	\$3,330,789	\$729,716	\$542,260	\$1,972,510	---	---
Infrastructure	Macquarie II ²	09/01/08	\$60,000,000	\$35,707,591	\$2,235,963	\$370,298	\$33,663,073	0.79%	---
Private Equity Composite		07/01/93	\$224,000,000	\$114,758,837	\$29,140,691	\$10,515,209	\$73,754,808	-53.25%	-4.79%
Infrastructure Composite²		08/01/08	\$120,000,000	\$39,038,380	\$2,965,679	\$912,558	\$34,212,606	---	---
Combined			\$344,000,000	\$153,797,217	\$32,106,370	\$11,427,767	\$107,967,414		

¹All data is preliminary and subject to change.

²Through 3/31/09



HARDING · LOEVNER®

January 5, 2009

To Our Clients and Friends:

We are writing to tell you that our transaction with Affiliated Managers Group (NYSE: AMG), announced last July, was not completed in 2008 as had been expected. We explain why, and where it stands today.

You may recall that AMG had agreed to purchase a majority equity stake in our firm, subject to satisfaction of certain conditions. Over the remainder of 2008, we fulfilled those conditions, including that of obtaining the consent of our clients to the proposed transaction—among them, Harding, Loevner Funds, Inc., whose shareholders voted to approve it at a special meeting in November. We are gratified by our clients' expression of their overwhelming support for the proposal we put forward.

The transaction structure, typical of AMG's investments, was particularly attractive to us in that it provided assurance of Harding Loevner's operational autonomy, retained equity ownership by employees, and continuity of Harding Loevner's current managers (and their eventual successors) through long-term employment agreements. In the time intervening since the agreement, however, the financial logic of the transaction originally proposed has been undermined by the sharp decline in global markets. Revenues remaining after operating expenses, i.e., profits available to be divided between our employee-owners and a new, outside investor, will, in the near term, fall significantly below the levels earlier anticipated.

Harding Loevner and AMG have been discussing this issue over the past several months, and last week we mutually agreed to postpone a final decision to later this year. Our revised agreement was announced by AMG in a press release this morning, a copy of which is attached.

Under our revised agreement, Harding Loevner received the exclusive right to choose, throughout the second half of