

REQUEST FOR PROPOSAL  
CITY OF SPOKANE  
**SPOKANE EMPLOYEES' RETIREMENT SYSTEM**  
DEFINED BENEFIT PLAN  
INVESTMENT CONSULTING SERVICES

I. GENERAL INFORMATION

The Spokane Employees' Retirement System (SERS) is a defined benefit plan with approximately \$280 million in assets as of March 31, 2020. The last actuarial valuation showed the plan was 63.9% funded, using a 7.5% rate of return. SERS is focused on providing the promised benefits in a sustainable and affordable manner that will ensure it remains a valuable benefit to the employees of the City of Spokane.

A list of current money managers and the fund's target asset allocation is included at the end of this RFP along with the investment policy (see Appendix A).

II. SCOPE OF SERVICES

The Scope of Services will cover five years and include, but is not limited to, the following:

- A. Asset Allocation Study (to be conducted at the commencement of the engagement)
- B. Manager Searches
- C. Ongoing Consulting Services:
  - Quarterly and annual investment performance reports
  - Quarterly onsite performance presentations to the Board on the first Wednesday of March, June, September, and December.
  - Annual review of investment policies
  - Quantitative and qualitative analysis of investment strategies as needed
  - Occasional meetings with the investment committee, management, and staff
- D. Serve as a fiduciary to the plan.

III. SUBMISSION OF PROPOSAL

The current timeline for the RFP process is as follows. The plan reserves the right to extend due dates subsequent the receipt of proposals. All respondents will be notified of any extensions.

RFP Issuance	May 26, 2020
Written questions regarding the RFP due	June 8, 2020
Answers to written questions provided	June 15, 2020
Proposals due	June 29, 2020
Evaluation of proposals completed	July 31, 2020
Finalist presentations	August 18-20, 2020
Contract Award	September 2, 2020

Inquiries and other communications about this Request for Proposals shall be through the contacts listed below. Direct communications with other management or elected officials may be grounds for rejecting a proposal.

All inquiries and questions regarding this RFP must be in writing. Answers to all items received by 5PM PDT on Friday, June 8, 2020 will be answered and posted on the SERS website (<http://www.spokanesers.org/>) on Monday, June 15, 2020.

Proposals shall be delivered to the City no later than **Monday, June 29, 2020 at 5PM PDT**. The City reserves the right to disqualify any proposals received late. Proposals may be submitted electronically, but must also include five (5) hard copies of your proposal in a sealed envelope.

Proposals and inquiries should be addressed to:

Spokane Employees' Retirement System  
Proposal for SERS Investment Consulting Services  
808 West Spokane Falls Boulevard  
Suite 604  
Spokane, WA 99201

Electronic submissions can be submitted to [ptencick@spokanecity.org](mailto:ptencick@spokanecity.org).

## PROPOSAL QUESTIONS

### **I. OVERALL ORGANIZATION**

Note: When answering the following proposal questions, please include information at the firm-wide level and for the office that will be servicing SERS, if applicable (e.g. the servicing office has 10 consultants and the firm has 50).

- 1) Please provide a brief history of your firm.
- 2) What is the present ownership of your organization? Please be specific.
- 3) Besides consulting, what other investment-related services do you provide to clients?
- 4) Please provide a breakdown of your firm's revenue by line of business, specifically showing investment consulting as a line item.
- 5) What proportion of current clients have engaged another line of business outside of investment consulting services?
- 6) What are your strategic growth initiatives?
- 7) Is the firm, including its directors, officers or employees party to any current lawsuits, regulatory investigation, or governmental investigation? Over the previous five years, has the firm settled any lawsuits related to its investment consulting practice, or has been subject to a government or regulatory investigation? If so, please describe.
- 8) Conflicts of Interest
  - a) How does your firm manage conflicts of interest? What controls, policies, and procedures are in place to insure client interests come first?
  - b) Does your firm or any affiliate of your firm provide trust, investment management or securities brokerage services? If so, please explain.
  - c) Does your firm or any of its employees receive any form of compensation from any investment managers? If so, please explain.
  - d) Does your firm provide any client data to outside firms? Please note, this should include anonymized data, such as client surveys. If your firm provides data, please describe what is provided and what consideration your firm receives.
  - e) Please provide a copy of your most recent form ADV parts I and II (only include in electronic submission).

## II. INVESTMENT CONSULTING

The remainder of this questionnaire applies to your firm's investment consulting practice unless otherwise indicated.

- 1) What is the overall size of your consulting practice (number of clients, assets under advisement, type of plan)?
- 2) What is the average tenure of each client? How many engagements have been won and lost in each of the past three years?
- 3) What investment consulting services do you provide? Of these, which separate you from other consulting firms?
- 4) What is your experience with plans of our size (\$250M to \$500M)? What unique challenges do you feel plans of this size face and how would you address them?
- 5) What is your experience with plans that have a similar funded status (60-70% funded)? What unique challenges do you feel plans at this funded status face and how do you generally recommend addressing them?
- 6) Based on the current market environment, how reasonable is the Plan's current 7.5% assumed long-term rate of return? What is the most average (mean and mode) assumed rate of return for your other government defined benefit Plan's?
- 7) Resources
  - a) What is the structure and size of the investment consulting practice? How many consultants are on staff? Which resources are accessible to clients and which serve as support to client facing resources?
  - b) What is the average tenure of each employee and each consultant? How many total employees and consultants have been hired by and departed from the firm in each of the past three years? How many partners have been added to or departed the firm in each of the past three years?
  - c) What is the average number of clients per consultant (by count and by assets advised)? How many clients does the proposed lead consultant currently advise (by count and by assets advised)?
  - d) Please attach biographical information for the lead consultant and any other staff that will be working directly on the account.

### **III. CLIENTS**

#### 1) Demographics

- a) How many governmental defined benefit (DB) plans do you provide consulting services for? What are the total assets under advisement? What is the average (mean and median) plan size?
- b) How many non-governmental DB plans do you provide consulting services for? What are the total assets under advisement? What is the average (mean and median) plan size?
- c) How many (in total) institutional investment clients do you provide consulting services for? What are the total assets under advisement? What is the average (mean and median) plan size?
- d) Please provide a representative list of your investment consulting clients.

#### 2) References

- a) Please provide three references. To the extent possible, include governmental defined benefit plans for which you provide consulting/performance measurement services. List the organization, contact name, address, e-mail and telephone number.
- b) Do you give SERS permission to contact other clients not specifically provided as references?

#### 3) What would your clients say are your greatest strengths and weaknesses?

### **IV. CONSULTING SERVICES**

#### 1) Manager Selection

- a) Please provide an overview of your management selection process, including initial and ongoing due diligence practices. Is the process uniform across all assets classes? If not, please explain the differences.
- b) What are the quantitative and qualitative criteria used to determine your recommend, watch, and/or terminate lists? How often are these lists reviewed? What is the annual turnover of these lists?
- c) How do you determine when to recommend an active manager versus a passive index?
- d) Over the past five years, how have managers recommended to clients performed relative to their benchmark and peer group?
- e) What is the average number of manager searches per client per year?

f) Investment Manager Database

i) Which database(s) do you use? Who supplies and verifies the data in the database(s)?

ii) Please complete the table below. Investable managers should represent the number of managers that meet the firm's minimum criteria for recommendation as described in item (b) above. Managers currently covering should represent the number of managers that the firm has conducted initial or ongoing due diligence on during the past 12 months. Managers on recommend list should represent the number of managers that have appeared as finalists in a manager search or are currently on a formal recommend list.

	Total Managers in Database	Investable Managers	Managers Currently Covering	Managers on Recommend List
<b>Equities (Long only)</b>				
(a) US				
(b) International				
(c) Emerging Markets				
(d) Global				
(e) Other (Please describe)				
<b>Fixed Income (Long only)</b>				
(a) US Core				
(b) US High Yield				
(c) US TIPS				
(d) International				
(e) Emerging Markets				
(f) Global				
(g) Other (Please describe)				
<b>Real Estate</b>				
(a) REITs				
(b) Private Real Estate				
(c) Other (Please describe)				
<b>Hedge Funds</b>				
(a) Long/Short				
(b) Absolute Return				
(c) Fund of Funds				
(d) Other (Please describe)				
<b>Alternatives</b>				
(a) Direct Private Equity				
(b) Private Equity Fund of Funds				
(c) Other (Please describe)				
<b>Other (Please describe)</b>				

## 2) Asset Allocation

- a) Please provide an overview of your asset allocation process.
- b) What methods are used to develop return, risk, and correlation assumptions?
- c) How have your return, risk and correlation assumptions compared to actual market performance?
- d) Please provide a copy of your current long-term return, risk, and correlation assumptions.
- e) To what extent are risk factors beyond volatility used in creating your optimization models?
- f) How are the plan's liabilities incorporated into the model?
- g) What kind of sensitivity and/or scenario analysis is provided?
- h) Over the past five years, how have your clients' target portfolios performed relative their target rate of return and relative to peers?
- i) What rebalancing strategies are recommended and how do they impact the asset allocation model?

## 3) Performance Measurement

- a) How frequently do you produce performance evaluation reports for your clients?
  - b) What is the source of your performance data? How is it verified?
  - c) At what point following quarter end are performance reports generally available?
  - d) To what extent can your performance reports be customized to meet a particular client's needs? What are the most common customizations requested?
  - e) Over the past five years, what is the attribution for clients as it relates to allocation and manager selection?
  - f) What unique insights does your performance reporting process provide to clients?
  - g) Please provide a sample performance report.
- 4) Are there any additional services that are included in a standard investment consultant engagement (e.g. client education, interim communications, access to research, etc.)?
  - 5) How do you measure client outcomes as it relates to the investment consulting services provided?

## V. FEES

- 1) Please provide your proposed fee schedules.
- 2) To the extent your firm has agreed-upon retainer fees, what services are typically covered by the retainer? What services are outside the retainer and what are the associated fees for such services?
- 3) To what extent are the quoted fees variable (e.g. based on the number of investment managers, manager searches, Board presentations, etc.)?

## VI. COVID-19

- 1) What temporary policies and procedures have been put in place at your firm to address COVID-19? How have these impacted client interactions?
- 2) As a result of COVID-19, what permanent policies and procedures have been put in place or are likely to be enacted? How will these impact client interactions going forward?
- 3) Did your firm receive any financial assistance from federal, state, or local government related to COVID-19? If so, please provide the amount of assistance and how it was used by the firm.
- 4) Please provide examples of client communications to plan sponsors related to COVID-19.
- 5) How did your firm's response to COVID-19 compare to instances of previous market turmoil (e.g. Great Financial Crisis)? How is it likely to affect your response to future market turmoil?

## VII. OTHER (OPTIONAL)

There are two additional benefit plans that currently engage an investment consultant. The City of Spokane offers its employees a 457 defined contribution plan and SERS administers a closed defined benefit plan for Law Enforcement Officers and Firefighters (LEOFF). These plans are overseen by two separate and unique boards from that of SERS plan.

LEOFF Plan – A defined benefit plan that is closed to new entrants, and has \$33M in assets invested 100% in fixed income through a single separate account. The plan is only expected to require performance reporting services, but may conduct a manager search if performance requires.

457 Defined Contribution Plan – The plan has roughly 2,200 participants with investments totaling \$177M. The plans investment options include 10 target date funds, 24 mutual funds, and a self-directed brokerage window. The plan record keeper is ICMA-RC. The services the plan requires are performance reporting, plan design review, and manager



searches, as necessary. Committee presentations are held on the same day as the SERS plan.

Currently, these two plans have engaged the same consultant as the SERS plan; however, there is no requirement for them to do so. If you are interested in providing these consulting services **in addition to** the SERS plan, please provide the information requested below. The information below is supplementary and the inclusion or exclusion of this section will not adversely impact your response to the SERS portion of the RFP.

- 1) What are the differences in the consulting and support staff that will service these plans?
- 2) How does your performance management process differ for DC plans?
- 3) How does your manager search process differ for DC plans?
- 4) What are the additional fees required to provide the required services for these plans?
- 5) Is there any additional information you would like us to consider regarding your ability to provide consulting services for these plans in addition to the SERS plan?

## INQUIRES

Inquiries and other communications about this Request for Proposals shall be through the Retirement Director. Direct communications with other management or elected officials may be grounds for rejecting a proposal unless permission is granted by the Retirement Director.

All inquires must be in writing. Inquiries received by 5PM PDT on Friday, June 5, 2020 will be answered and posted on the SERS website (<http://www.spokanesers.org/>) on Wednesday, June 10, 2020. Inquiries should be addressed to:

Spokane Employees' Retirement System  
Inquiries for SERS Investment Consulting Services  
808 West Spokane Falls Boulevard  
Suite 604, City Hall  
Spokane, WA 99201

Electronic inquiries can be submitted to [ptencick@spokanecity.org](mailto:ptencick@spokanecity.org)

## ADDITIONAL INFORMATION

### A. REJECTION OF PROPOSALS

The City reserves the right to reject any and all proposals and to waive informalities or irregularities in a proposal or in the proposal process. The City reserves the right to split or make the award in any manner deemed most advantageous to the City at its sole and exclusive discretion.

### B. PREPARATION OF PROPOSAL

The City shall not be liable for any costs incurred by a Proposer in preparing or submitting a proposal. Proposals should be prepared simply and economically, providing a straight-forward, concise description of the Proposer's capabilities to satisfy the City's requirements. Submitted materials become the property of the City and will not be returned. Submitted proposals constitute public records which are subject to review and copying by a person making an appropriate request for public record.

#### C. PROPOSAL EVALUATION

The City does not intend to award a contract solely on the basis of price. Evaluation criteria will include but not be limited to:

1. Firm Resources
2. Skill of Assigned Personnel
3. Investment Consulting Processes
4. Potential Conflicts of Interest
5. Fees

#### D. ORAL PRESENTATIONS

The City, at its sole discretion, may ask individual proposers to make oral presentations without charge to the City. Such presentations provide an opportunity for the proposer to clarify its proposal to insure a mutual understanding of its contents.

#### E. GUARANTEE OF GOOD FAITH AND FIRM PRICE

Proposals shall remain in effect for a minimum of ninety (90) days from the submission deadline date unless extended by mutual consent.

### CONTRACT REQUIREMENTS

#### A. INSURANCE

During the term of the contract, the firm shall maintain in force at its own expense, the following insurance coverages:

1. Worker's Compensation Insurance in compliance with RCW 51.12.020, which requires subject employers to provide workers' compensation coverage for all their subject workers.
2. General Liability Insurance on an occurrence basis, with a combined single limit, of not less than \$1,500,000 each occurrence for bodily injury and property damage. It shall include contractual liability coverage for the indemnity provided under the contract. It shall provide that the City, its officers, employees and agents are additional insureds but only with respect to the firm's services to be provided under the contract.
3. Automobile Liability Insurance with a combined single limit, or the equivalent, of not less than \$300,000 each accident for bodily injury and property damage, including coverage for owned, hired or non-owned vehicles.

4. Professional Liability Insurance with a combined single limit of not less than \$2,000,000 each claim, incident or occurrence. This is to cover damages caused by the error, omission, or negligent acts related to the professional services to be provided under the contract. The coverage must remain effect for at least three (3) year(s) after the contract is completed.

There shall be no cancellation, material change, reduction of limits or intent not to renew the insurance coverage(s) without 30 days written notice from the firm or its insurer(s) to the City;

As evidence of the insurance coverages required by the contract, the firm shall furnish acceptable insurance certificates to the City at the time the firm returns the signed contract. The certificate shall specify all of the parties who are additional insured, and will include applicable policy endorsements, the 30 day cancellation clause, and the deduction or retention level. Insuring companies or entities are subject to City acceptance. The firm shall be financially responsible for all pertinent deductibles, self-insured retentions, and/or self-insurance.

#### B. BUSINESS REGISTRATION REQUIREMENT

Section 8.01.070 of the Spokane Municipal Code states that no person may engage in business with the City without first having obtained a valid annual business registration. The firm shall be responsible for contacting the State of Washington Business License Services at <http://bls.dor.wa.gov> or (800) 451-7895 to obtain a business registration. If the firm does not believe it is required to obtain a business registration, it may contact the City's Taxes and Licenses Division at (509) 625-6070 to request an exemption status determination.

#### C. ANTI-KICKBACK

No officer or employee of the City of Spokane, having the power or duty to perform an official act or action related to this contract shall have or acquire any interest in the contract, or have solicited, accepted or granted a present or future gift, favor, service or other item of value from or to any person involved in the contract.

**STATEMENT OF INVESTMENT POLICY**  
**Spokane Employees' Retirement System**

Date Approved: March 4, 2020

**POLICY OVERVIEW**

The Board ("Board") of the Spokane Employees' Retirement System ("SERS") hereby establishes this Statement of Investment Policy ("IPS") for the investment, in accordance with applicable federal, state and municipal laws and regulations, of SERS assets ("Fund"). This IPS defines the investment policies for the management and oversight of the Fund for SERS.

The guiding principles with respect to the investment of the Fund are to preserve the ability for the Fund to meet its long-term liabilities within prudent risk parameters. Toward that end, the Fund has established the following goals:

- 1) Accumulate sufficient assets through a diversified portfolio of investments to pay all current and future retirement benefits and expense obligations of the Fund.
- 2) Establish an asset allocation policy that is expected to meet the required rate of return over long periods of time while minimizing volatility.
- 3) Minimize the costs associated with implementation of the asset allocation through the efficient use of resources.
- 4) Operate solely in the interest of the participants and beneficiaries and for the exclusive purpose of providing benefits to the participants and their beneficiaries and defraying reasonable expenses of administration.
- 5) Seek investment returns and funding policies that will allow for ad hoc increases in retirees' annuities so as to maintain the purchasing power of their benefit.

**ROLES AND RESPONSIBILITIES**

The Board, as a fiduciary, is responsible for establishing the IPS, reviewing the IPS as required, and making changes as necessary. The Board is also responsible for selecting and monitoring the investment consultant, investment managers, custodian, auditor, actuary and any other service providers necessary in the fulfillment of this policy and the Fund objectives. Responsibility for day-to-day administration and implementation related to the IPS may be delegated to the Chief Investment Officer (CIO) and/or other SERS staff. Responsibilities of the CIO (and/or SERS staff at the direction of the CIO) include:

- 1) Implementation of the Fund's investment goals, objectives and policies.
- 2) Due diligence, monitoring, and contracting of the Fund's investment managers.
- 3) Due diligence, monitoring, and contracting of the Fund's service providers.

- 4) Make buy/sell decisions to provide for regular liquidity requirements and rebalancing within the asset allocation guidelines.
  - a. The Board will be notified in advance of all transactions. The transaction will be considered approved if the Board does not object to the proposed transaction within one business day.
- 5) Monitoring and evaluating performance results to assure that the policy guidelines are being met.

The Board and staff may also delegate certain responsibilities to professional service providers in various fields. These experts include:

- 1) **Investment Consultant.** The investment consultant will assist in: 1) establishing investment policy; 2) designing objectives and guidelines; 3) selecting investment managers; 4) reviewing such managers over time; 5) measuring and evaluating investment performance; and, 6) other tasks as deemed appropriate. It is expected that the investment consultant will be selected by the Board and will serve as a co-fiduciary on all investment related decisions and will have the proper insurance to cover exposure.
- 2) **Investment Managers.** An investment manager has discretion to purchase, sell and/or hold the specific securities that will be used to meet the Fund's investment objectives while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement and in their specific manager guidelines.
- 3) **Custodian.** The custodian will maintain possession of securities owned by the Fund, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian will also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Fund accounts. The custodian will provide at a minimum monthly reporting of assets and transactions and provide any additional data requests.
- 4) **Auditor.** The auditor will provide an annual review the Fund's books and records, accounting policies, and internal controls to provide an opinion that the financial statements are presented fairly and without material misstatement.
- 5) **Actuary.** The actuary will provide an annual valuation of the Fund's total pension liability based on the actuarial assumptions approved by the Board.
- 6) **Other.** Additional specialists may be employed to assist in meeting its responsibilities and obligations to administer Fund assets prudently.

Board and staff do not maintain any control over the individual investment decisions made by the investment managers. The investment managers will be held responsible and accountable to achieve the objectives outlined in their specific investment guidelines as provided in the agreement, prospectus or other such documentation.

All expenses for such experts must be customary and reasonable, and will be borne by the Fund as deemed appropriate and necessary.

### **INVESTMENT OBJECTIVE**

The investment strategy of the Fund has been established to emphasize total return; that is, the aggregate return from capital appreciation, dividend and interest income, net of any investment management fees. The Fund currently has a long term actuarial expected rate of return of 7.50%. In consideration of this expected return, the primary investment management objectives for the Fund assets shall be to maximize total return over time at an acceptable level of risk and to provide relatively smooth and predictable distributions to the beneficiaries.

Additionally, the Fund will be invested according to the following general principles:

- Investments shall be made solely in the interest of and for the beneficiaries of the Fund;
- Investment of the Fund shall be diversified as to minimize the risk of large losses, unless under the circumstances it is prudent not to do so;
- Risk shall be evaluated in the context of the portfolio in its entirety with particular focus on how the various asset classes and investment strategies correlate to one another;
- Care will be taken to provide adequate liquidity to meet all current spending obligations of the Fund;
- Cash is to be employed productively at all times, to provide safety, liquidity, and return;
- The investment manager(s) should, at all times, be guided by the principles of “best price and execution” and that the Fund's best interests are the primary consideration.
- Investment management fees shall be reasonable. Fees should be minimized unless additional fees are expected to generate additional returns in excess of the additional fees or to provide additional diversification unavailable in a low-cost, passive investment.

### **ASSET ALLOCATION GUIDELINES**

To achieve its investment objectives, the Fund will be allocated among a number of asset classes. These asset classes may be broadly defined to include capital preservation, domestic equities, international equities, long biased, opportunistic credit, real estate and special opportunities. The purpose of allocating across these asset classes is to ensure the proper level of diversification within the Fund and improve the risk-adjusted efficiency of the investment portfolio. The following table outlines the Fund's target asset allocation along with standard minimum and maximum allocation rebalancing guidelines. Allocations in excess of the standard minimum or maximum require Board approval.

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
<b>Capital Preservation</b>	<b>20%</b>	<b>23%</b>	<b>26%</b>
Cash	0%	0%	2%
Total Return Bond	8%	10%	12%
High Yield Bond	3%	5%	7%
Absolute Return	6%	8%	10%
<b>Domestic Equities</b>	<b>29%</b>	<b>32%</b>	<b>35%</b>
Large Cap Equity	19%	21%	23%
Small/Mid Cap Equity	9%	11%	13%
<b>International Equities</b>	<b>19%</b>	<b>22%</b>	<b>25%</b>
Large Cap Equity	13%	15%	17%
Small/Mid Cap Equity	2%	4%	6%
Emerging Market Equity	1%	3%	5%
<b>Long Biased</b>	<b>4%</b>	<b>7%</b>	<b>10%</b>
<b>Opportunistic Credit</b>	<b>4%</b>	<b>7%</b>	<b>10%</b>
<b>Real Estate</b>	<b>6%</b>	<b>9%</b>	<b>12%</b>
<b>Special Opportunities*</b>	<b>0%</b>	<b>0%</b>	<b>10%</b>

**\* Special Opportunities**

This asset class is designed to allow the committee to pursue unique investment opportunities that may fall outside of current asset class descriptions. These opportunities are generally defined by higher expected return potential relative to broad public equity markets. However, they may also include opportunities expected to provide equity-like returns with significantly less risk. Given the variable nature of this opportunity set, the asset class retains a target allocation of 0%, but may be implemented at the discretion of the Board as opportunities present themselves. Funding for the asset class will generally be redirected from the broad public equity allocation.

**REBALANCING OF FUND ASSETS**

The asset allocation exposures will be closely monitored with the understanding that the various asset classes may perform differently and that the relative attractiveness of asset classes may vary over time. The Fund's allocation will be reviewed at each Board meeting, as well as during periods of severe market change to assure that allocations remain within their respective guidelines and consistent with the long-term objective of the Fund. If an asset class

is outside the allowable range, the Board, or its designee, may take appropriate action to redeploy assets. In any investment rebalancing situation the Board, or its designee, will consider market conditions, costs and other investment related factors. In certain circumstances, when appropriate and at the Board's discretion, the Fund may be allocated outside the ranges provided in the guidelines.

#### **INVESTMENT PERFORMANCE REVIEW AND EVALUATION**

Performance reports shall be compiled at least quarterly and presented to the Board for review. The investment performance of the total Fund, as well as the asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Board recognizes the long term nature of the Fund's objectives and the variability of market returns. Periodic underperformance relative to any criteria outlined in this IPS will not necessitate the termination of an investment option.

As referenced above, the Fund's total account performance objective is to achieve the long-term actuarial rate of return and to minimize the risk of failing to meet this expected return. To that end, managers have been selected based on their perceived ability to meet and or exceed predetermined benchmarks.

The total return of the Fund will be measured against a passive policy index of comparable risk comprised as follows:

<b><u>Asset Class</u></b>	<b><u>Benchmark</u></b>	<b><u>Weight</u></b>
Cash	US 90 Day T-Bill	0%
Total Return Bond	Barclays US Aggregate Bond Index	10%
High Yield Bond	Barclays US Corporate HighYield Index	5%
Absolute Return	HFRI FOF Conservative Index	8%
Domestic Large Cap Equity	S&P 500 Index	21%
Domestic Small/Mid Cap Equity	Russell 2500 Index	11%
International Large Cap Equity	MSCI ACWI ex-US Index	15%
International Small/Mid Cap Equity	MSCI ACWI ex-US Small Cap Index	4%
Emerging Markets Equity	MSCI EM Free Index	3%
Long Biased	HFRI FOF Composite Index	7%
Opportunistic Credit	HFRI Distressed Restructuring Index	7%
Real Estate - Private	NCREIF – ODCE Index	6%
Real Estate - Public	FTSE NAREIT Index	3%
Special Opportunities	Russell 3000 Index	0%



Additionally, the Board shall compare the performance of each individual investment alternative against the performance of the peer groups, relevant index benchmarks, and the manager’s strategic benchmark if it differs from the relevant benchmark. The Board shall track the investment vehicle’s performance relative to its benchmark(s), and the degree to which variance in the vehicle’s performance can be explained by variance in the performance of the benchmark(s). Initially, indices used for comparison purposes shall include the following:

**Investment Category**

**Relevant Benchmark**

US Large Capitalization Stocks—Blended Style	S&P 500 Index
US Large Capitalization Stocks—Growth Style	Russell 1000 Growth Index
US Large Capitalization Stocks—Value Style	Russell 1000 Value Index
US Small Capitalization Stocks—Blended Style	Russell 2000 Index
US Small Capitalization Stocks—Growth Style	Russell 2000 Growth Index
US Small Capitalization Stocks—Value Style	Russell 2000 Value Index
US Mid Capitalization Stocks—Blended Style	Russell Mid Cap Index
US Mid Capitalization Stocks—Growth Style	Russell Mid Cap Growth Index
US Mid Capitalization Stocks—Value Style	Russell Mid Cap Value Index
US Small/Mid Capitalization Stocks – Blended Style	Russell 2500 Index
Foreign Large Capitalization Stocks - Blended Style	MSCI ACWI ex-US Index
Foreign Large Capitalization Stocks - Value Style	MSCI ACWI ex-US Value Index
Foreign Large Capitalization Stocks - Growth Style	MSCI ACWI ex-US Growth Index
Foreign Small/Mid Capitalization Stocks – Blended	MSCI ACWI ex-US Small Cap Index
Emerging Market Large Capitalization Stocks	MSCI Emerging Markets Free Index
Real Estate Investment Trusts (REITS)	FTSE NAREIT Index
Core Liquid Real Estate	NCREIF – ODCE Index
Private Real Estate	NCREIF Property Index
Global Commodities	Bloomberg Commodity Index
Long Biased	HFRI FOF Composite Index
Opportunistic Credit	HFRI Distressed Restructuring Index
Special Opportunities	Russell 3000 Index
US High Yield Bonds	Barclays US Corporate High Yield Index
Absolute Return	HRFI FOF Conservative Index
Total Return Bonds	Barclays Aggregate Bond Index
Global Bonds	Barclays Global Aggregate Bond Index
Treasury Inflation Protected Securities	Barclays U.S. TIPS Index
Money Market	90-Day U.S. Treasury Bills

Notwithstanding this initial designation, the Board may change indices used for comparison if it is determined that a different index provides a more useful or appropriate benchmark for any designated investment vehicle.

If the net of fee performance of an actively managed investment option lags significantly behind that of the representative benchmark index over a trailing five year period and the option’s performance places it significantly below category averages, the Board may designate

the option as “on watch” and, in so doing, shall endeavor to investigate why the option’s relative performance has lagged; and determine whether the option continues to be an appropriate investment for the Fund.

If a statistical analysis of an indexed/passively managed investment option indicates that the option is not performing similarly to its benchmark, the Board may designate the option as “on watch” and, in so doing, shall endeavor to investigate why the invest performance has varied from the benchmark; and determine whether the option continues to be an appropriate investment for the Fund.

In addition to net investment performance, the Board will also review the investment products’ risk characteristics in relation to that performance. Risk will be measured in various ways including, but not limited to:

- Standard deviation
- Risk/return ratios such as Sharp or Treynor Ratios
- Up market and down market performance
- Other statistical measures such as Beta and Alpha
- Style drift

The investment options will also be monitored on an ongoing basis for material changes such as personnel departures, research capability adjustments, organizational changes, or alterations in investment style, philosophy, or strategy, as well as adherence to stated guidelines.

#### **MANAGER SELECTION**

To facilitate the Board’s manager selection decisions, the Consultant and Staff will present a formal search, with recommendations, for all new and replacement investment managers or funds. Initial due diligence should include a review of the investment philosophy, process, team, and performance record. Risks posed by a concentrated exposure to a single investment manager or co-investor will also be evaluated. Additional due diligence should be conducted for investments in new asset classes, firms with limited track records, or limited partnerships to evaluate any idiosyncratic risks the investment may pose, which may include interviewing key personnel, legal review, and on-site due diligence.

#### **INVESTMENT POLICY REVIEW**

To assure continued relevance of the guidelines, objectives, financial status and capital market expectations as established in this statement of investment policy, the Board will review the IPS annually, or more frequently if conditions warrant.