

# STATEMENT OF INVESTMENT POLICY

## Spokane Employees' Retirement System

Date Approved: December 3, 2014

### 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) Obtain investment returns that allow for ad hoc increases in retirees' annuities so as to maintain the purchasing power of their benefit.
- 3) Establish an asset allocation policy that is expected to meet the required rate of return over long periods of time while minimizing volatility.
- 4) Minimize the costs associated with implementation of the asset allocation through the efficient use of resources.
- 5) 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.

### ROLES AND RESPONSIBILITIES

The Board, as 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 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) Selection, hiring and firing of the Fund's investment managers.
- 3) Selection, hiring, and firing of the Fund's service providers.
- 4) 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 Manager.** The 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) **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. 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; and,
- 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.

## **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 global fixed income, absolute return, global equity,

long/short equity and fixed, special opportunities, commodities and real estate. 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 minimum and maximum allocation rebalancing guidelines.

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Cash	0%	1%	10%
Global Fixed Income	10%	15%	20%
Absolute Return	5%	10%	15%
Global Equity	40%	50%	60%
L/S & Special Opportunities	10%	14%	20%
Commodities	0%	4%	8%
Real Estate	0%	6%	10%

### **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 quarterly, 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 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:

Policy Index: 1% US 90 Day T-Bill, 15% Barclays US Aggregate Bond Index, 5% Barclays Corporate HighYield Index, 5% Barclays Global Aggregate Bond Index, 34% S&P 500 Index, 8% Russell Mid Cap Index, 5% Russell Small Cap Index, 17% MSCI ACWI ex-US Index, 4% S&P GSCI Index, 3% NAREIT Composite Index and 3% NCREIF Property Index.

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

**Investment Category**

US Large Capitalization Stocks—Blended Style  
 US Large Capitalization Stocks—Growth Style  
 US Large Capitalization Stocks—Value Style  
 US Small Capitalization Stocks—Blended Style  
 US Small Capitalization Stocks—Growth Style  
 US Small Capitalization Stocks—Value Style  
 US Mid Capitalization Stocks—Blended Style  
 US Mid Capitalization Stocks—Growth Style  
 US Mid Capitalization Stocks—Value Style  
 Foreign Large Capitalization Stocks - Blended Style  
 Foreign Large Capitalization Stocks - Value Style  
 Foreign Large Capitalization Stocks - Growth Style  
 Emerging Market Large Capitalization Stocks  
 Real Estate Investment Trusts (REITS)  
 Global Commodities  
 Long/Short Growth, Special Opportunities  
 US High Yield Bonds  
 Absolute Return  
 Intermediate Term Bonds  
 Global Bonds  
 Short Duration Bonds  
 Treasury Inflation Protected Securities  
 Money Market

**Relevant Benchmark**

S&P 500 Index  
 Russell 1000 Growth Index  
 Russell 1000 Value Index  
 Russell 2000 Index  
 Russell 2000 Growth Index  
 Russell 2000 Value Index  
 Russell Mid Cap Index  
 Russell Mid Cap Growth Index  
 Russell Mid Cap Value Index  
 MSCI ACWI ex-US Index  
 MSCI ACWI ex-US Value Index  
 MSCI ACWI ex-US Growth Index  
 MSCI Emerging Markets Free Index  
 FTSE NAREIT Index  
 S&P GSCI Index  
 S&P 500 Index  
 Barclays US Corporate High Yield Index  
 Barclays Aggregate Bond Index  
 Barclays Aggregate Bond Index  
 Barclays Global Aggregate Bond Index  
 Barclays US Aggregate 1-3Yr Bond Index  
 Barclays U.S. TIPS Index  
 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

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.

#### **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.