

Spokane Employees' Retirement System (SERS)
Board Meeting, 1:30 p.m. October 26, 2016
City Hall - Conference Room 5A

AGENDA

- 1) Minutes of the September 28, 2016 Meeting
 - Motion

- 2) Directors Report
 - a. Retirements
 - Motion
 - b. Withdrawals
 - Motion
 - c. Vesting
 - Information
 - d. Deaths
 - Information
 - e. Expenditure Summary Report – September 2016
 - Motion
 - f. Schedule of Investments – September 2016
 - Information
 - g. Monthly Cash Reconciliation
 - Information
 - h. Funding Level Update
 - Information
 - i. Other Business
 - 2017 Educational Topics Discussion
 - Board Search Survey Results Discussion
 - Actuary RFP Update

- 3) Investment Policy Statement
 - Motion

- 4) Introduction to Core Real Estate
 - Information

- 5) Other Business

- 6) Next Meeting – **Wednesday, December 7, 2016 at 12:30p.m.**

**Spokane Employees' Retirement System (SERS)
Board Meeting Minutes
September 28, 2016**

The regular monthly meeting was called to order at 1:30 p.m. in the 5th Floor Conference Room at City Hall.

Present: Mike Cavanaugh, Jim Tieken, Breean Beggs, Dean Kiefer, and Brian Brill

Absent: Mike Coster

Staff: Phill Tencick, Christine Shisler, Donald Brown, and Tim Szambelan

Guests: Joe Cavanaugh, Bob Olsen, Richard Czernick, Joan Hamilton, Natalie Hilderbrand, and John Bjork

Minutes of the August 31, 2016 Meeting

Jim Tieken moved and Dean Kiefer seconded the motion to approve the minutes of the August 31, 2016 meeting as presented. The motion passed unanimously.

Breean Beggs arrived at 1:33 P.M.

Director's Report

Service Retirements

<i>Name</i>	<i>Age</i>	<i>Retirement Date</i>	<i>Years of Service</i>	<i>Option</i>
Daniel J. Daling	62	09/06/2016	8.3	ST
Lars N. Morgan	52	09/15/2016	18.4	ST
Ricky D. Hays	63	10/01/2016	12.9	ST
Eric P. Schaffer	53	10/04/2016	19.6	D
Robert J. Zalewski	63	10/04/2016	29.2	E
Susan L. Zalewski	62	10/04/2016	17.1	E
DeAnn R. Gordon	58	11/02/2016	24.6	D

Dean Kiefer moved and Jim Tieken seconded the motion to approve the service retirements as amended on the September Retirement Transaction Report. The motion passed unanimously.

Withdrawals for September 2016

<i>Name</i>	<i>Years of Service</i>	<i>Termination Date</i>
Tyler J. Treffry	0.3	02/24/2016
Christina M. Dombrowski	0.2	03/16/2016
Deanette M. Christopherson	10.1	08/10/2016
Daniel B. Strange	1.1	08/26/2016

Jim Tieken moved and Brian Brill seconded the motion to approve the requests for withdrawal as presented on the September Retirement Transaction Report. The motion passed unanimously.

Vesting

<u>Name</u>	<u>Department</u>	<u>Years of Service</u>
Sara A. Kelly	Library	11.6
Richard S. Rush	Council	6.3

Vesting information provided to the Board for review.

Expenditure Summary Report – August 2016

The Expenditure Summary Report was presented to the Board and discussed.

Dean Kiefer moved and Jim Tieken seconded the motion to approve the August 2016 Expenditure Summary Report. The motion passed unanimously.

Schedule of Investments – August 2016

The monthly investment report was presented to the Board for review. The estimated market value of the SERS portfolio on August 31, 2016 was \$278 million with an estimated rate of return of -0.2%.

Monthly Cash Reconciliation

A new monthly cash reconciliation report was presented to provide the Board with additional insight into the ongoing liquidity and cash position of the plan.

Asset Allocation Implementation Update

The asset allocation implementation update was presented showing that the initial implementation will be complete following the redemption from Troob Capital Management. The allocation will be fully implemented upon completion of the real estate and opportunistic credit searches.

Other Business

Mr. Tencick gave an update to the Board regarding the RFP for Actuary Services. Milliman and SageView Advisory Group were the only firms that responded. Mr. Tencick suggested having both firms come on-site for presentations.

Opportunistic Credit Primer

Mr. Tencick presented an Opportunistic Credit Primer that introduced the Board to the opportunistic credit asset class.

US Bank Pension Payment Transition

Jim Tieken moved and Breean Beggs seconded the motion to transition to US Bank to process pension payments. The motion passed unanimously.

Other Business

There being no other business, the meeting adjourned at 2:34 p.m.

Phillip Tencick, Retirement Director

DRAFT

SERS Retirement Transaction Report

October 2016

Retirements

	Name	Age	Retirement Date	Years of Service	Department	Option
1	Jeffrey S. Burke	50	10/17/2016	8.9	Street	ST
2	Harry A. McLean, Jr.	72	11/04/2016	27.6	Water	A
3	Wanda T. Clark	64	11/19/2016	11.2	Building Services	ST
4	Charles D. Fletcher	62	01/07/2017	28.1	Water	E
5	Richard J. Gow	71	01/07/2017	11.0	Water	E
6	Michael W. Hartman	63	01/07/2017	24.6	Water	ST
7	Robert A. Lincoln	67	01/21/2017	18.6	LEIS	ST
8	William A. Flatt	76	02/02/2017	17.7	LEIS	E
	Retirements YTD	64				
	2015 Total Retirements	83				

Withdrawals

	Name	Years of Service	Department	Termination Date
1	Gina R. Dempsey	1.7	Solid Waste Disposal	07/21/2016
2	David R. Parker	0.6	Probation Services	08/04/2016
3	Tyler R. Whitney	0.7	Mayor	10/03/2016

Vesting

	Name	Department	Years of Service
1	Shukwo Chan Palmer	IT	7.9
2	Kyndrin M. Tenny	Police	6.4

Deaths

	Name	Date Retired	Age	Date of Death	Information
1	Clyde H. Kramer	04/09/2005	75	09/15/2016	E Option Continues
2	Joyce C. Allenton	11/13/2003	85	09/22/2016	No Further Benefits
3	Harold W. Roan	09/07/1996	88	10/05/2016	No Further Benefits
4	Raymond D. King	12/05/1992	85	10/06/2016	No Further Benefits
5	Shirley J. Rickard	02/05/1994	84	10/10/2016	No Further Benefits
6	Eileen C. Quorn-Peters	03/31/1983	94	10/12/2016	No Further Benefits
7	Earl W. Cox	04/10/1993	79	10/17/2016	No Further Benefits

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
 2016 EXPENDITURE SUMMARY REPORT
 SEPTEMBER 30, 2016

	2015 ACTUAL	2016 BUDGET	SEPTEMBER ACTUAL EXPENDITURES	2016 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
OPERATING EXPENDITURES						
Departmental Salaries	220,405.82	273,580.00	29,687.40	190,886.96	82,693.04	69.8%
Departmental Benefits	66,088.05	78,190.00	7,629.02	56,477.17	21,712.83	72.2%
Reserve for Budget Adjustment	-	10,000.00	-	-	10,000.00	0.0%
Administrative Income	(22,061.31)	(10,000.00)	(4,038.46)	(12,618.45)	2,618.45	
Postage/Supplies/Other	20,091.84	16,000.00	689.36	7,404.34	8,595.66	46.3%
State Audit Charges	11,687.79	10,000.00	2,487.05	5,714.56	4,285.44	57.1%
Contractual Services	90,587.98	150,000.00	-	75,911.25	74,088.75	50.6%
Travel	2,517.20	15,000.00	-	6,297.73	8,702.27	42.0%
Registration/Schooling	10,789.00	15,000.00	-	510.00	14,490.00	3.4%
Other Dues/Subscriptions/Membership	1,970.20	2,500.00	-	848.20	1,651.80	33.9%
Other Miscellaneous Charges	4,462.05	2,220.00	57.00	1,103.05	1,116.95	49.7%
Depreciation & Amortization	17,649.00	-	-	-	-	
TOTAL OPERATING EXPENDITURES	424,187.62	562,490.00	36,511.37	332,534.81	229,955.19	59.1%
INTERFUND EXPENDITURES						
Interfund - Centralized Accounting	2,781.80	2,407.00	-	1,727.97	679.03	71.8%
Interfund - IT Phones	1,555.51	1,463.00	123.56	999.05	463.95	68.3%
Interfund - IT Communications Replacement	240.96	-	-	-	-	-
Interfund - Risk Management	1,121.00	991.00	-	743.25	247.75	75.0%
Interfund - Unemployment	500.00	-	-	-	-	-
Interfund - Worker's Compensation	58.50	198.00	-	148.50	49.50	75.0%
Interfund - Reprographics	-	2,500.00	256.66	2,755.27	(255.27)	110.2%
Interfund - IT	13,892.04	13,729.00	1,144.08	9,152.64	4,576.36	66.7%
Interfund - IT Replacement	3,584.04	1,927.00	160.58	1,284.64	642.36	66.7%
TOTAL INTERFUND EXPENDITURES	23,733.85	23,215.00	1,684.88	16,811.32	6,403.68	72.4%
TOTAL ADMINISTRATIVE EXPENDITURES	447,921.47	585,705.00	38,196.25	349,346.13	236,358.87	59.6%

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
 2016 EXPENDITURE SUMMARY REPORT
SEPTEMBER 30, 2016

	2015 ACTUAL	2016 BUDGET	SEPTEMBER ACTUAL EXPENDITURES	2016 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
PENSIONS						
Pensions-Annuity Benefit Payments	22,192,755.57	24,000,000.00	2,012,326.43	17,713,318.70	6,286,681.30	73.8%
Pensions-Disability Payments	125,328.48	160,000.00	10,444.04	93,996.36	66,003.64	58.7%
Pensions-Survivor Annuity Benefits Payments	1,641,113.98	1,600,000.00	158,821.94	1,371,439.96	228,560.04	85.7%
TOTAL PENSIONS	<u>23,959,198.03</u>	<u>25,760,000.00</u>	<u>2,181,592.41</u>	<u>19,178,755.02</u>	<u>6,581,244.98</u>	
Refunds	637,821.67	1,000,000.00	49,314.86	603,485.95	396,514.05	60.3%
TOTAL EXPENSES	<u><u>25,044,941.17</u></u>	<u><u>27,345,705.00</u></u>	<u><u>2,269,103.52</u></u>	<u><u>20,131,587.10</u></u>	<u><u>7,214,117.90</u></u>	73.6%
INVESTMENT EXPENSE*						
Advisory Technical Service	430,178.76	450,000.00	3,847.14	220,506.46	229,493.54	49.0%

* investment expenses are netted against investment income in the statement of changes of plan net assets to arrive at a net investment income amount.

SERS Schedule of Cash and Investments
September 30, 2016

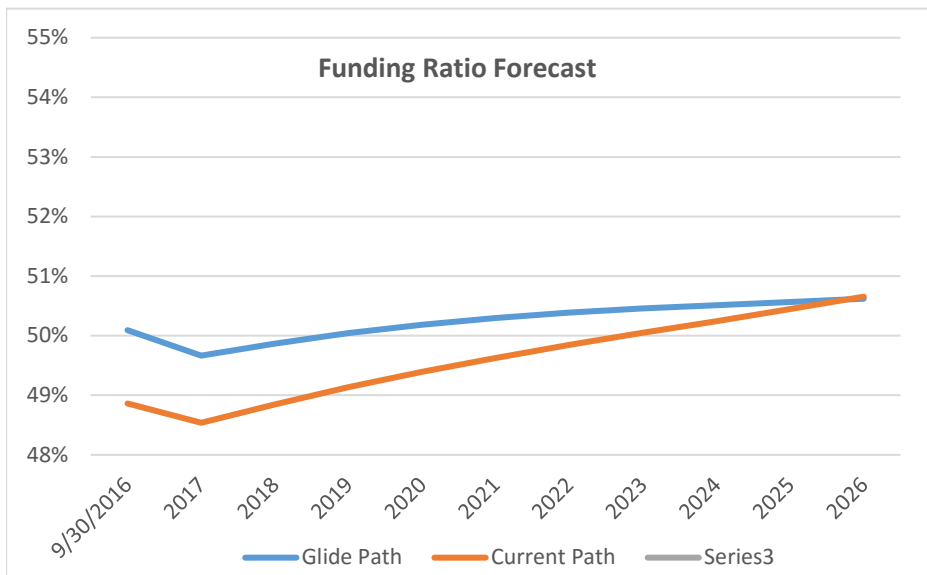
10/20/2016

				Allocation		
				Target	Current	Diff.
		Type				
Cash Held by Treasurer	Cash		\$ 129,008			
US Bank	Short-term Inv		53,270			
	Total Cash		182,278	0.0%	0.1%	0.1%
Vanguard Short-Term	Total Return - Mutual Fund		25,058			
Sterling Capital	Total Return		21,574,142			
	Total Total Return		21,574,142	10.0%	7.7%	-2.3%
Hotchkis & Wiley	High Yield - Mutual Fund		25,377,260			
	Total High Yield		25,377,260	5.0%	9.1%	4.1%
Total Fixed Income			47,133,680	15.0%	16.9%	1.9%
Hotchkis & Wiley	LC Value - Mutual Fund		15,458,554			
Delaware	LC Growth - Mutual Fund		14,888,331			
MFS Heritage	LC Core		17,337,813			
Vanguard S&P 500 Index	LC Core - Mutual Fund		8,613,047			
	Total US Large Cap		56,297,745	21.0%	20.2%	-0.8%
Sterling	MC Value		6,380,923			
Vanguard MC Growth	MC Growth - Mutual Fund		6,093,008			
Vanguard MC Index	MC Core - Mutual Fund		3,505,920			
Champlain	SC Core		4,663,193			
Phocas	SC Value - Mutual Fund		4,401,864			
Bridge City	SC Growth		4,937,505			
Vanguard SC Index	SC Core - Mutual Fund		854,804			
	Total US Small/Mid Cap		30,837,217	11.0%	11.0%	0.0%
Artisan	SMID Value - Mutual Fund		19,514,590			
Euro Pacific	LC Blend - Mutual Fund		16,936,782			
Vanguard International	LC Index - Mutual Fund		-			
	Total International Large Cap		36,451,372	15.0%	13.1%	-1.9%
Trivalent	SC Value - Mutual Fund		9,038,507			
	Total International Small/Mid		9,038,507	4.0%	3.2%	-0.8%
Berens	Ltd Partnership		10,141,221			
	Total Emerging Markets		10,141,221	3.0%	3.6%	0.6%
Total Equities			142,766,062	54.0%	51.1%	-2.9%
Polar	LLC		6,359,527			
American Beacon	Mutual Fund		-			
Castine Capital I	Ltd Partnership		6,445,538			
Post Limited Term High Yield	Ltd Partnership		5,783,263			
Rimrock Low Volatility	Ltd Partnership		9,096,908			
	Total Absolute Return		27,685,236	8.0%	9.9%	1.9%
Weatherlow Offshore	Ltd Partnership		14,392,884			
Royalty Opportunities I	Ltd Partnership		4,460,440			
Royalty Opportunities II	Ltd Partnership		1,437,473			
Troob	Ltd Partnership		2,896,619			
	Total Long Biased		23,187,416	7.0%	8.3%	1.3%
Legacy Partners Realty Fund III	Ltd Partnership		144,734			
Metropolitan Real Estate Partners	Ltd Partnership		417,725			
Morrison Street Fund IV	LLC		2,347,607			
Morrison Street Fund V	LLC		5,230,427			
Principal (REITs)	REITs		13,245,202			
	Total Real Estate		21,385,695	9.0%	7.7%	-1.3%
Beach Point	Ltd Partnership		8,370,066			
	Total Opportunistic Credit		8,370,066	7.0%	3.0%	-4.0%
Caduceus (OrbiMed)	Ltd Partnership		8,784,386			
	Total Special Opportunities		8,784,386	0.0%	3.1%	3.1%
Total Alternatives			89,412,799	31.0%	32.0%	1.0%
Total Cash and Investments			\$ 279,312,541	100.0%	100.0%	0.0%
		Withdrawals	\$ (500,000)			
		As of August 31, 2016	\$ 278,456,771			
		Estimated Rate of Return	0.5%			
Abs. Return and Total Return FI			49,259,378	18.0%	17.6%	-0.4%
High Yield and Opp Credit			33,747,326	12.0%	12.1%	0.1%
Equity and Special Situations			151,550,448	54.0%	54.3%	0.3%

<u>Date</u>	<u>Transactions</u>	<u>Sources</u>	<u>Uses</u>	<u>Balance</u>
9/16/2016	Beginning Balance			50,420.02
9/19/2016	Commission Recapture	26.30		50,446.32
9/22/2016	OrbiMed Royalty Opps Distribution	16,620.34		67,066.66
9/28/2016	Cash from Transition to Sterling FI	450,000.00		517,066.66
9/28/2016	Metro Real Estate Distribution	36,180.71		553,247.37
9/29/2016	Wire for Pension Payments		(500,000.00)	53,247.37
10/3/2016	Interest Paid	22.94		53,270.31
10/7/2016	Closing Balance from Vanguard FI	24,987.60		78,257.91
10/14/2016	Morrison Street IV Distribution	47,281.32		125,539.23
10/19/2016	Ending Balance	575,119.21	(500,000.00)	125,539.23
	<u>Upcoming</u>			
10/31/2016	October Pension Payments		(1,125,000.00)	

Plan Funding Ratio

	<u>Projected</u>	<u>Actual</u>	<u>Variance</u>
Funded Ratio	50.1%	48.9%	-1.2%
Assets	278,189,590	279,312,541	0.4%
PV Liabilities	555,363,851	571,621,548	2.9%
Contributions	11,556,516	11,598,016	0.4%
Benefit Payments	20,249,492	20,131,587	-0.6%
Investment Returns	14,581,275	15,544,821	6.6%
Discount Rate	5.50%	5.35%	-2.8%
<i>As of: 9/30/2016</i>			



STATEMENT OF INVESTMENT POLICY Spokane Employees' Retirement System

Date Approved: ~~December 2, 2015~~ October 26, 2016

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) 2) _____~~ Establish an asset allocation policy that is expected to meet the required rate of return over long periods of time while minimizing volatility.
- ~~4) 3) _____~~ Minimize the costs associated with implementation of the asset allocation through the efficient use of resources.
- ~~5) 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) ~~Selection, hiring~~ Due diligence, monitoring, and ~~firing~~ contracting of the Fund's investment managers.

- 3) ~~Selection, hiring~~ Due diligence, monitoring, and firing ~~contracting~~ of the Fund's service providers.
- 3)4) Make buy/sell decisions to provide for regular liquidity requirements and rebalancing within the asset allocation guidelines.
- 4)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 Manager.**~~ **The 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.
- 4)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; 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.
- 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 ~~global fixed income, absolute return, global equity~~ capital preservation, domestic equities, international equities, long-/short equity ~~biased, opportunistic credit, real estate~~ 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 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>
<u>Capital Preservation</u>	<u>-20%</u>	<u>1%</u>	<u>26%</u>
<u>Cash</u>	<u>0%</u>	<u>15%</u>	<u>2%</u>
<u>Global Fixed Income</u> <u>Total Return</u>	<u>10%</u>	<u>0%</u>	<u>12%</u>
<u>Bond</u>	<u>3%</u>	<u>10%</u>	<u>7%</u>
<u>High Yield Bond</u>	<u>5%</u>	<u>5%</u>	<u>20%</u>
<u>Absolute Return</u>	<u>5%</u>	<u>10%</u>	<u>10%</u>
			<u>+5</u>
<u>Domestic Equities</u>	<u>29%</u>	<u>32%</u>	<u>35%</u>
<u>Global</u> <u>Large Cap Equity</u>	<u>19%</u>	<u>21%</u>	<u>23%</u>
<u>Small/Mid Cap Equity</u>	<u>9%</u>	<u>11%</u>	<u>13%</u>
<u>International Equities</u>	<u>19%</u>	<u>22%</u>	<u>25%</u>
<u>Large Cap Equity</u>	<u>13%</u>	<u>15%</u>	<u>17%</u>
<u>Small/Mid Cap Equity</u>	<u>2%</u>	<u>4%</u>	<u>6%</u>
<u>Emerging Market Equity</u>	<u>1%</u>	<u>3%</u>	<u>5%</u>
<u>Long Biased</u>	<u>4%</u>	<u>7%</u>	<u>10%</u>
<u>L/S</u> <u>&</u> <u>Special</u>	<u>4%</u>	<u>7%</u>	<u>10%</u>
<u>Opportunities</u> <u>Opportunistic Credit</u>			
<u>Real Estate</u> <u>Commodities</u>	<u>6%</u>	<u>9%</u>	<u>12%</u>
<u>Special Opportunities</u> <u>Real Estate</u>	<u>0%</u>	<u>60%</u>	<u>10%</u>

*** 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 quarterly 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:

~~Policy Index: 1% US 90 Day T-Bill, 15% Barclays US Aggregate Bond Index, 5% Barclays Corporate High Yield 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.~~

<u>Asset Class</u>	<u>Benchmark</u>	<u>Weight</u>
<u>Cash</u>	<u>US 90 Day T-Bill</u>	<u>0%</u>

<u>Total Return Bond</u>	<u>Barclays US Aggregate Bond Index</u>	<u>10%</u>
<u>High Yield Bond</u>	<u>Barclays US Corporate HighYield Index</u>	<u>5%</u>
<u>Absolute Return</u>	<u>HFRI FOF Conservative Index</u>	<u>8%</u>
<u>Domestic Large Cap Equity</u>	<u>S&P 500 Index</u>	<u>21%</u>
<u>Domestic Small/Mid Cap Equity</u>	<u>Russell 2500 Index</u>	<u>11%</u>
<u>International Large Cap Equity</u>	<u>MSCI ACWI ex-US Index</u>	<u>15%</u>
<u>International Small/Mid Cap Equity</u>	<u>MSCI ACWI ex-US Small Cap Index</u>	<u>4%</u>
<u>Emerging Markets Equity</u>	<u>MSCI EM Free Index</u>	<u>3%</u>
<u>Long Biased</u>	<u>HFRI FOF Composite Index</u>	<u>7%</u>
<u>Opportunistic Credit</u>	<u>HFRI Distressed Restructuring Index</u>	<u>7%</u>
<u>Real Estate</u>	<u>NCREIF – ODCE Index</u>	<u>9%</u>
<u>Special Opportunities</u>	<u>Russell 3000 Index</u>	<u>0%</u>

Additionally, the Board shall compare the performance of each individual investment alternative against the performance of the peer groups, relevant index benchmarks, and ~~peer groups~~ the manager’s strategic benchmark if it differs from the relevant benchmark. The Board shall track the investment vehicle’s performance relative to ~~the 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
<u>US Small/Mid Capitalization Stocks – Blended Style</u>	<u>Russell 2500 Index</u>
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
<u>Foreign Small/Mid Capitalization Stocks – Blended</u>	<u>MSCI ACWI ex-US Small Cap Index</u>
Emerging Market Large Capitalization Stocks Index	—————MSCI Emerging Markets Free
Real Estate Investment Trusts (REITS)	—————FTSE NAREIT Index
<u>Core Liquid Real Estate</u>	<u>NCREIF – ODCE Index</u>

Private Real Estate	S&P	GSCI	Bloomberg	Commodity
Global Commodities Index				
Long/Short Growth, Biased Index				
Opportunistic Credit				
Special Opportunities	S&P 500			
US High Yield Bonds Absolute Return				
FOF Conservative Index				
Intermediate Term <u>Total Return</u> Bonds				
Bond Index				
Global Bonds				
Short Duration Bonds				
Treasury Inflation Protected Securities				
Money Market				

NCREIF Property Index
HFRI FOF Composite
HFRI Distressed Restructuring Index
Russell 3000 Index
Barclays US Corporate High Yield Index
Barclays Aggregate Bond <u>HFRI</u>
Barclays Aggregate
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
- 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.

STATEMENT OF INVESTMENT POLICY
Spokane Employees' Retirement System

Date Approved: October 26, 2016

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.

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

*** 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:

<u>Asset Class</u>	<u>Benchmark</u>	<u>Weight</u>
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	NCREIF – ODCE Index	9%
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

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

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- 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.

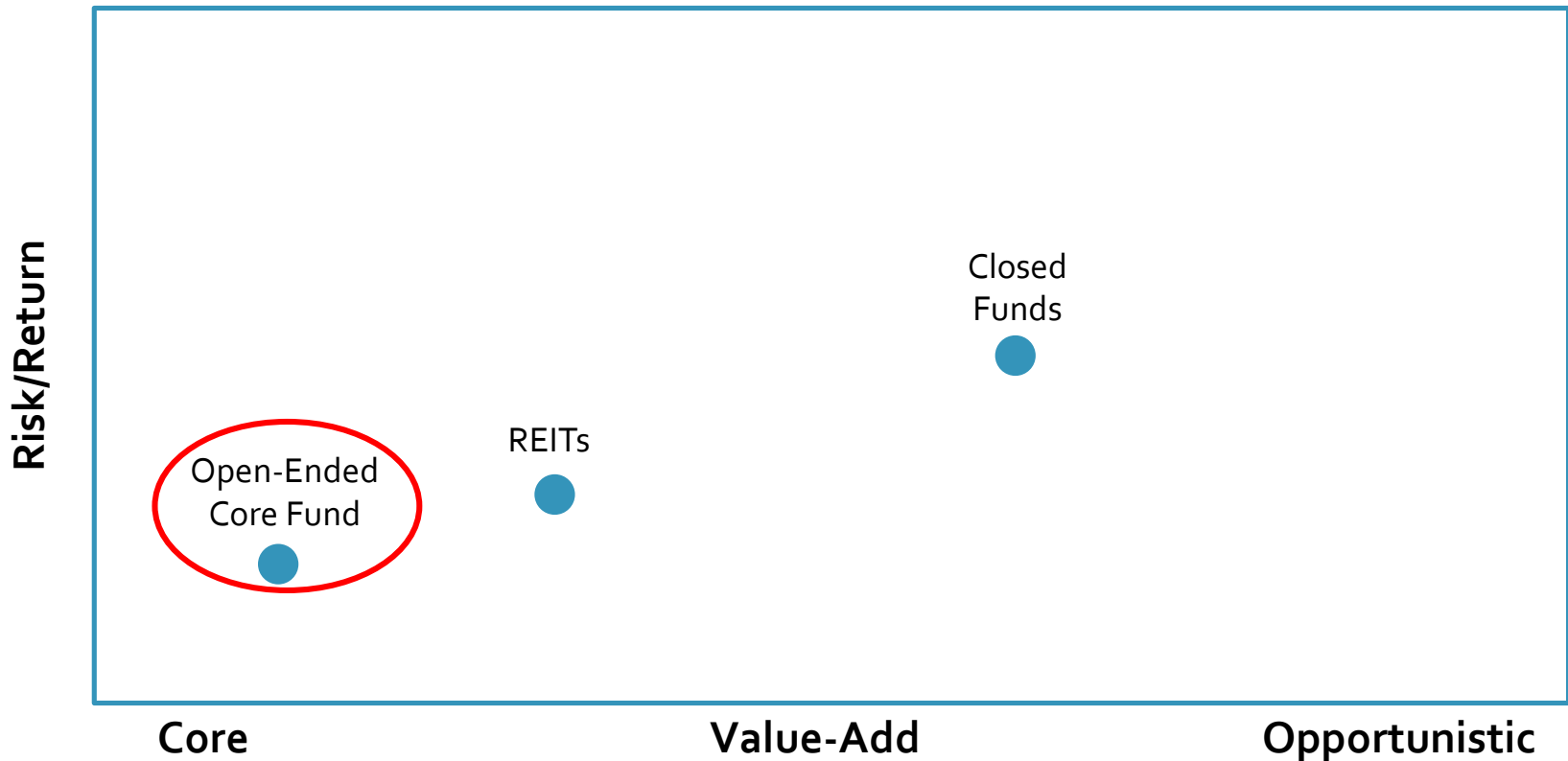
OPEN-ENDED CORE REAL ESTATE PRIMER

SERS Board Meeting

October 26, 2016



Real Estate Investment Strategies



ODCE Fund Requirements

Open-Ended Diversified Core Equity (ODCE)

- 95% US Assets
- 80% Private Properties
- 80% Core Properties (>75% Leased)
- 40% Maximum Leverage
- Reporting
 - Annual audit
 - Quarterly valuation, with annual appraisals
- Constituents
 - 24 Funds
 - \$165B of Property

Types of Investments

Office



Retail



Apartment



Industrial



Self Storage



Hotel



Single-Family



Strategic Differences

- Leverage: Higher Leverage = Higher Risk/Return
- Portfolio Management: Active Risk
- Markets: Primary vs. Secondary, Urban vs. Suburban
- Property Mix: Use of Specialty
- Value Add: How Much, Risk Profile, Promote or Sell
- Operating Partners: Direct, 3rd Party, Joint Venture
- Exit Strategy: Process, Price Realization
- Yield: Cash flows available to investors
- Queue Management: In and Out

Performance Attribution

	<u>Fund A</u>	<u>Fund B</u>	
Yield	4.00%	4.25%	Initial Rent Income
Earning Growth (NOI)	1.00%	0.43%	Rent Increases, Lease Up
Cap Rate Change	<u>1.25%</u>	<u>0.94%</u>	Overall Market Change
Total Unlevered Returns	6.25%	5.61%	
Leverage	<u>2.08%</u>	<u>2.40%</u>	25% Fund A, 30% Fund B
Total Gross Returns	8.33%	8.01%	
Fees	<u>-0.75%</u>	<u>-0.50%</u>	
Net Investor Returns	7.58%	7.51%	

Other Considerations

- Not buying past performance; buying current portfolio and future acquisitions
- Market generally considered fair- to over-valued
 - Yield and NOI improvement are expected value drivers
 - Cap expansion (losses) generally underwritten