SEATLE CITY EMPLOYEES'
RETIREMENT SY STEM

Statement of Investment Policy and Procedures

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I. INTRODUCTION

This document provides a framework for the investment management of the assets of the Seattle City Employees' Retirement System (the 'System' or "SCERS"). Its purpose is to assist the Board of Administration (the Board' or "Retirement Board") in effectively supervising and monitoring the investments of the System, and achieving its objective of providing adequate retirement and disability benefits to eligible municipal employees in a cost effective manner. Specifically, it will address:

- The general goals of the investment program;
- The policies and procedures for the management of the investments;
- Specific asset allocations, rebalancing procedures and investment guidelines;
- Performance objectives; and
- Responsible parties.

The Board of Administration of the Seattle City Employees' Retirement System establishes this investment policy in accordance with Revised Code of Washington (RCW) Section 35.39 for the systematic administration of the City Employees' Retirement Fund.

The System is governed by a seven-member Board of Administration and an appointed Executive Director. In the formation of this investment policy and goal statement, a primary consideration of the Board has been their awareness of the stated purpose of the System. The Board's investment activities are designed and executed in a manner that will fulfill these goals.

This policy statement is designed to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur, while setting forth reasonable parameters to ensure prudence and care in the execution of the investment program.

II. INVESTMENT OBJECTIVES

A. Overall Performance Goals

The System's general investment goals are broad in nature. The following goals, consistent with the above described purpose, are adopted:

- The overall goal of the System's investment assets is to provide adequate retirement and disability benefits to eligible employees in a cost effective manner. This will be accomplished through a carefully planned and executed investment program.

- A secondary objective is to achieve a long-term total annual rate of return, including dividends, interest, and capital appreciation which exceeds the assumed actuarial rate of return, currently 7.75% per year, and a total annual return net of all investment management fees and expenses, which meets or exceeds a weighted average of the asset class benchmarks specified below, where the weights correspond to the Fund's strategic policy allocation.

- The System's investment program shall at all times comply with existing and future applicable city, state, and federal regulations.

- All transactions undertaken will be for the sole benefit of the System's participants and beneficiaries and for the exclusive purpose of providing benefits to them and defraying reasonable administrative expenses associated with the System.

- The System has a long-term investment horizon, and utilizes an asset allocation which encompasses a strategic, long-run perspective of capital markets. It is recognized that a strategic
long-run asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the System's investment performance.

- Investment actions are expected to comply with "prudent person" standards as described in RCW 35.39.060:

"…with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims."

B. Performance Goals By Asset Class

The performance objective of the portfolio's allocation to each asset class in which the Retirement Fund is invested shall be to achieve a total return net of fees and expenses which equals or exceeds the market indexes listed below over a full market cycle as defined by the System's consultant.

Asset Class	**Benchmark**
1. *U.S. Equities:*	Russell 3000 Index
2. *Non-U.S. Equities:*	Morgan Stanley Capital International (MSCI) EAFE Index
3. *U.S. Fixed-Income:*	Barclays U.S. Universal Index
4. *Real Estate:*	NCREIF NFI ODCE Index
5. Real Return:	CPI + 3.0%
6. *Private Equity:*	Russell 3000 Index + 3.0%
7. Covered Calls	BXM Covered Calls Index*

*Also known as the CBOE S&P 500 BuyWrite Index

III. DUTIES AND RESPONSIBILITIES

A. Duties of the Board or its Designate(s)

The Retirement Board has the responsibility for administration of the Fund for the benefit of plan participants, although it is not the intent of the Board of Retirement to become involved in the day-today investment decisions. The Board or its designee(s) will adhere to the following procedures in the management of the Board's assets:

- The Board develops and approves guidelines for the execution of the Board's investment program. Only the Board in its sole discretion can delegate its decision-making authority regarding the investment program. Staff will be responsible for the implementation and administration of these decisions.

- The Board will ensure a formal review of the Fund's investment structure; asset allocation and financial performance reviews will be conducted bi-annually or more frequently as the need arises. The review will include recommended adjustments to the long-term, strategic asset allocation to reflect any changes in applicable regulations, long-term capital market assumptions, actuarial assumptions or the Fund's financial condition.

- The Board shall review investments quarterly or as needed to ensure that policy guidelines continue to be met. The Board shall monitor investment returns on both an absolute basis and relative to appropriate benchmarks and peer group comparisons. The source of information for these reviews shall come from Staff, outside consultants, the custodian, investment managers, etc.

- The Board may retain investment consultants to provide such services as conducting performance reviews, asset allocation, manager reviews and investment research.

- The Board shall be responsible for taking appropriate action if investment objectives are not being met or if policies and guidelines are not being followed. Reviews for separate portfolios managed by external managers will focus on:

1. Manager compliance to the Policy guidelines.

2. Material changes in the managers' organizations, such as investment philosophy, key personnel changes, acquisitions or losses of major accounts, etc. The managers will be responsible for keeping the

Board advised of any material changes in key personnel, investment strategy, or other pertinent information potentially affecting performance.

3. Investment performance relative to each manager's stated performance benchmark(s) as set forth in the manager's investment contract / guidelines.

- The Board shall expect Staff to administer the Fund's investments in a cost-effective manner subject to Board approval. These costs include, but are not limited to, management, consulting and custodial fees, transaction costs and other administrative costs chargeable to the Fund.

- The Board shall be responsible for selecting qualified investment managers, consultants and custodian.

- Voting of proxies in stocks held by the System will be done according to Board policy.

B. Duties of the Investment Advisory Committee

RCW 35.39.080 requires that any city operating an employees' pension system appoint an Investment Advisory Committee (the "Advisory Committee") consisting of at least three members who are considered experienced and qualified in the field of investments. No member of the Investment Advisory Committee is liable for the negligence, default, or failure of any other person or other member of the Committee to perform the duties of his or her office, and no member of the Committee may be considered or held to be an insurer of the funds or assets of the System nor shall any member be liable for actions performed with the exercise of reasonable diligence within the scope of his or her duly authorized activities as a member of the Committee. RCW 35.39.110.

Duties of the Advisory Committee shall be as follows:

- Make recommendations as to general investment policies, practices, and procedures to the Retirement Board including, but not limited to, asset mix, portfolio diversification, average maturity, portfolio risk level and rate of return.

- Review the investment performance of the Retirement System.

- Prepare a written report of its activities during each fiscal year. Each report shall be submitted not more than thirty days after the end of each fiscal year to the Retirement Board.

- Review the Statement of Investment Policy and Procedures as adopted by the Retirement Board and make recommendations as to the content thereof.

- Render advice to the Retirement Board relative to the desirability of and the procedure to retain investment advisors, performance measurement services, and bank custody of securities owned.

- Select one Committee member to serve as Chair at all meetings scheduled by the Advisory Committee.

C. Duties of the Staff

The Board's Investment Staff provides analysis and recommendations to the Board on a wide variety of investments and investment related matters; oversees and directs the implementation of Board policies, and manages the Fund on a day to day basis. Further, Staff shall:

- Invest the Fund's cash without requiring the Board's permission but only as set forth in the Board's Investment Guidelines.

- Monitor investment managers for adherence to appropriate policies and guidelines.

- Evaluate and manage the relationships with brokers, managers, consultants, and custodian to the Fund to ensure that they are providing all the necessary assistance to Board and to Staff.

- Conduct the manager search process, as approved by the Board, with assistance from consultants as needed.

- Manage portfolio restructuring resulting from portfolio rebalancing or manager terminations with the assistance of consultants and managers, as needed.

- Be responsible for organizing and/or participating in any special research for the Board.

- Ensure that Investment Managers conform to the terms of their contracts and that performance monitoring systems are sufficient to provide the Board with as timely, accurate and useful information as possible.

- Advise and keep the Board apprised of any other events of investment significance.

D. Duties of the Investment Managers

The Investment Managers shall:

- Contract by written agreement with the Board to invest within approved guidelines.

- Provide the Board with proof of liability and fiduciary insurance coverage at the time of execution of engagement contract and annually thereafter until the relationship is terminated.

- Be a SEC-Registered Investment Advisor under the 1940 Act or an authorized bank or trust, and be recognized as providing demonstrated expertise over a number of years in the management of institutional assets within a defined investment specialty.

- Adhere to the investment management style concepts and principles for which they were retained, including, but not limited to, developing portfolio strategy, performing research, developing buy, hold and sell lists, and purchasing and selling securities.

- Obtain best execution for all transactions for the benefit of the System with brokers and dealers qualified to execute institutional orders on an ongoing basis at the best net cost to the System, and, where appropriate, facilitate soft dollar credits and the recapture of commissions for the System's benefit.

- Reconcile monthly accounting, transaction and asset summary data with custodian valuations, and communicate and resolve any significant discrepancies with the custodian and the Board's Investment Staff.

- Maintain frequent and open communication with the Board and Staff on all significant matters pertaining to the Investment program, including, but not limited to, the following:

    1. Major changes in the Investment Manager's investment outlook, investment strategy and portfolio structure;

    2. Significant changes in ownership, organizational structure, financial condition or key or senior personnel;

    3. Any changes in the Portfolio Manager, Relationship Manager or other personnel assigned to the System;

    4. Each client that terminates its relationship whose terminated portfolio account represents at the least one percent of the Investment Manager's aggregate portfolio on the day of notice of termination with the Investment Manager, within 30 days of such termination;

    5. Each client that terminates its relationship when the cumulative terminations for a calendar month equals or exceeds one percent of the Investment Manager's aggregate portfolio as of the first business day of the reporting month; and

6. All pertinent issues which the Investment Manager deems to be of significant interest or material importance.

- Meet with the Board and/or Staff on an as-needed basis.

E. Duties of the Master Custodian

The Master Custodian shall be responsible to the Board for the following:

- Provide complete global custody and depository services for the designated accounts.

- Manage a Short Term Investment Fund (STIF; for investment of any uninvested cash, and ensure that all available cash is invested. If the cash reserves are managed externally, full cooperation must be provided.

- Provide in a timely and effective manner a monthly report of the investment activities implemented by the investment managers.

- Collect all income and principal realizable and properly report it on the periodic statements.

- Provide monthly and fiscal year-end accounting statements for the portfolio, including all transactions; these should be based on accurate security values for both cost and market. These reports should be provided within acceptable time frames.

- Report situations where accurate security pricing, valuation and accrued income is either not possible or subject to considerable uncertainty.

- Provide assistance to the System to complete such activities as the annual audit, transaction verification or unique issues as required by the Board.

- Manage a securities lending program to enhance income if directed by the Board. If the securities lending program is managed externally, full cooperation must be provided.

F. Duties of the General Investment Consultant

The Investment Consultant shall be responsible for the following:

- Prepare a quarterly performance report including performance attribution on the Board's managers and total assets, including a check on guideline compliance and adherence to investment style and discipline.

- Make recommendations to the Board regarding investment policy and strategic asset allocation.

- Assist the Board in the selection of qualified investment managers, and assist in the review of existing managers, including monitoring changes in personnel, ownership and the investment process.

- Assist the Board in the selection of a qualified custodian if necessary.

- Provide topical research and education on investment subjects as requested by the Board or Investment Staff.

IV. INVESTMENT POLICIES AND PROCEDURES

A. Asset Allocation — Asset/Liability

The Board adopts and implements an asset allocation policy that is predicated on a number of factors, including:

- A projection of actuarial assets, liabilities, benefit payments and required contributions;

- Historical and expected long-term capital market risk and return behavior;
- An assessment of future economic conditions, including inflation and interest rate levels; and
- The current and projected funding status of the System.

The asset allocation will be determined through appropriate studies undertaken by consultants retained by the Board. The allocation study will include all asset classes deemed prudent and appropriate by the Board. The Board, with the aid of the consultant, will determine the assumptions and criteria to he used in the asset allocation study. The following assumptions and criteria will be so determined:

- The expected return from each asset category
- The expected standard deviation of each asset category
- The minimum and maximum percent to be invested in each asset category
- The correlation relationship between the asset categories
- The minimum acceptable return over a given time period
- The net contribution as a percent of payroll
- The expected payroll growth rate

The resulting asset allocation mixes will be approved by the Board with input from Investment Staff and the consultant and an optimum selection made. The asset allocation study will be performed no less frequently than every five years. Appropriate adjustments to the existing portfolio will then be made in the most expeditious and appropriate manner.

On a more periodic basis, the Staff, with assistance from the investment consultant, will analyze the portfolio structure of each asset class. Analysis shall include: 1) appropriateness of asset class and manager benchmarks, 2) alignment structure of individual portfolios with asset class benchmark based on manager holdings and mandate, 3) evaluation of whether the asset class is structured in such a manner that is consistent with the Boards objectives, 4) analysis of underperforming managers, and 5) overall risk profile of the asset class.

Pursuant to RCW 35.39.060 which requires the diversification of the investments of the Retirement System so as to minimize the risk of large losses, the assets of the Retirement Fund shall be diversified according to the specified target percentages:

Strategic Policy Allocation approved December 1, 2010

Asset Class	2012 Target	2013 Long-Term Target
US Equity	25%	25%
Non-US Equity	27%	27%
Covered Calls	6%	6%
US Fixed-Income	20%	20%
Real Return	5%	4%
Private Equity	5%	6%
Real Estate	12%	12%

Strategic Policy Allocation Rebalancing Ranges

Asset Class	2012 Target	Range	Min	Max
US Equity	25%	-/+2%	23%	27%
Non-US Equity	27%	-/+2%	25%	29%
Covered Calls	6%	+/-4%	2%	10%
US Fixed-Income	20%	-/+2%	18%	22%
Real Return	5%	-/+4%	1%	9%
Private Equity	5%	-/+2%	3%	7%
Real Estate	12%	-/+6%	6%	18%

Asset Class	2013 Target	Range	Min	Max
US Equity	25%	-/+2%	23%	27%
Non-US Equity	27%	-/+2%	25%	29%
Covered Calls	6%	-/+4%	2%	10%
US Fixed-Income	20%	-/+2%	18%	22%
Real Return	4%	-/+3%	1%	7%
Private Equity	6%	-/+2%	4%	8%
Real Estate	12%	-/+6%	6%	18%

Strategic Policy Allocation Rebalancing Ranges – Turbulent Market Periods

Asset Class	2012 Target	Range	Min	Max
US Equity	25%	-6%/+2%	19%	27%
Non-US Equity	27%	-6%/+2%	21%	29%
Covered Calls	6%	-/+4%	2%	10%
US Fixed-Income	20%	-6%/+2%	14%	22%
Real Return	5%	-/+4%	1%	9%
Private Equity	5%	-/+2%	3%	7%
Real Estate	12%	-/+6%	6%	18%

Asset Class	2013 Target	Range	Min	Max
US Equity	25%	-6%/+2%	19%	27%
Non-US Equity	27%	-6%/+2%	21%	29%
Covered Calls	6%	-/+4%	2%	10%
US Fixed-Income	20%	-6%/+2%	14%	22%
Real Return	4%	-/+3%	1%	7%
Private Equity	6%	-/+2%	4%	8%
Real Estate	12%	-/+6%	6%	18%

B. Rebalancing Guidelines

As markets move over time, the actual asset mix of the Fund's portfolio may diverge from the target allocations established by the Board through the asset allocation process. If Fund assets are allowed to deviate too far from the target allocations, there is a risk that the portfolio will fail to meet the management objectives set by the Board. On the other hand, the Board is aware that continual rebalancing of the portfolio to the asset allocation targets may result in significant transaction costs. Additionally, the Board recognizes that during extended market declines (such as in the 2000-2002 and 2008-2009 bear markets) standard rebalancing methodologies can break down, where the rebalancing process produces results completely opposite of expectations. Cognizant of these risks, the Board will rebalance the Fund portfolio in accord with the following guidelines and procedures:

- With respect to each asset class group for which the Board has set a target allocation, the Board, in consultation with its staff and its investment consultant, will establish rebalancing range limitations. Generally, the Board will require tighter ranges for the larger asset class groups (e.g., total equity and total fixed-income) except during turbulent markets, than for the smaller asset class groups.

- The Board and Staff will monitor the portfolio's asset allocation relative to target allocations and ranges on a periodic basis. If the actual allocations fall within the defined ranges, no rebalancing will be required, but Staff will have the discretion to rebalance on either an opportunistic basis or to manage portfolio risk relative to policy. If actual allocations for a publicly traded asset class group fall outside the predetermined ranges, Staff may develop a plan for rebalancing back within the target range, including the timeframe for accomplishing the rebalancing. When possible and/or appropriate, it is preferred that rebalancing occurs mid-way to target.

- Staff will monitor the volatility of the market utilizing the CBOE Volatility Equity Volatility Index (the VIX) and other relevant information to identify and measure turbulent market periods. If the current VIX level is one standard deviation above its three-year moving average, then Staff, in its discretion, may move to the wider rebalancing ranges for the major classes (US equity, non-US equity, and fixed-income) during the turbulent market period. The wider thresholds allow Staff additional latitude and flexibility during difficult market conditions.

    - During periods of market stress the rebalancing ranges for the three major classes (US equity, non-US equity, and fixed-income) may be adjusted as outlined above in the Strategic Policy Allocation Rebalancing Ranges – Turbulent Market Periods table. For the two equity classes, the lower bound has been extended to account for volatility in downward-trending periods, as rebalancing too early may force purchases into a public equity class that may continue to underperform. For the fixed-income class, the upper bound has been increased. This allows SCERS to continue to hold a larger amount of protection-oriented assets during a turbulent market environment.

Given the difficulty in managing the allocations to less liquid private market asset classes, automatic rebalancing will not be required if the actual allocation for such assets falls outside the predetermined range. Rather, Staff, in consultation with its investment consultant and/or other consultants, will make a recommendation to the Board for bringing the allocation as close as practicable to the policy target within a reasonable time-frame.

Whenever an allocation to a particular asset class is above or below target, but within the target range, Staff may rebalance partially or fully back to target where there is an opportunity to do so efficiently, utilizing cash inflows, cash balances held by managers and trading opportunities which would permit liquidating or adding to positions while limiting trading costs in this regard. Staff will immediately report any such rebalancing to the Board at its next meeting.

V. ELIGIBLE INVESTMENTS

The Board will utilize the following portfolio components to fulfill the asset allocation targets and total fund performance goals established elsewhere in this document.

A. Public Equities

The Board expects that over the long run, total returns to equities will be higher than the returns to fixed-income securities, but may be subject to substantial volatility over shorter periods. Public equity holdings may include:

1. U.S. Equities

- Index Funds / Core Stocks — This portfolio will provide broadly diversified, core exposure through index funds to the U.S. equity market, primarily in large capitalization companies. Index funds provide primary liquidity for asset allocation.

- Large Value Stocks — As a more defensive portion of the equity portfolio, value stocks, covering the upper range of market capitalization, are expected to outperform the broad market during periods of flat or declining trends, while underperforming during rising markets. Value stocks typically exhibit higher dividend yield, lower Price/Earnings ratios, and lower Price/Book ratios.

- Large Growth Stocks — Large growth stock allocation provides exposure to stocks of large capitalization, whose valuations are more directly tied to future earnings prospects. Often, growth stocks sell at higher prices relative to expected or historical earnings growth. Growth stock volatility tends to be higher than value stocks, although such stocks generally outperform during rising markets while trailing the market in flat or declining periods.

- Small Value Stocks — The principal characteristic of the small value stock component is its emphasis in stocks with a market capitalization generally ranging from $200 million - 1.5 billion that are characterized by faster growth and higher long-term returns during periods of flat or declining trends. Value stocks typically exhibit higher dividend yield, lower Price/Earnings ratios, and lower Price/Book ratios.

- Small Growth Stocks — The principal characteristic of the small growth stock component is its emphasis in stocks with a market capitalization generally ranging from $200 - $1.5 billion that are characterized by faster growth and higher long-term returns during rising markets. Growth stock volatility tends to be higher than for value stocks.

2. Non-U.S. Equities

- Developed Markets — This category includes broadly diversified equity markets outside the U.S. and consequently plays a significant role in diversifying the portfolio. This segment will concentrate on larger companies in established equity markets around the world utilizing a top/down approach.

- Emerging Markets — This component is made up of equity positions in companies located in emerging, rapidly growing countries around the world. Because these are countries which are typically in the early development stages of economic growth, the returns in these countries tend to be higher and more volatile on a year-to-year basis.

<u>B. Fixed-Income</u>

The primary role of the fixed-income portfolio is to provide a more stable investment return and to generate income while diversifying the System’s investment assets. The fixed-income holdings may be comprised of the following segments:

1. U.S. Bonds

- Core Bonds — This segment will provide core exposure to the U.S. fixed-income market including Treasury and government agency bonds, corporate debt, mortgages and asset-backed securities. The portfolio will be composed primarily of investment grade issues with duration similar to that of an applicable core bond index.

- Index Bonds — This segment is meant to replicate the maturity and sector weightings of the U.S. fixed-income market. Performance is expected to match that of applicable debt market indices.

- Non-Core Bonds — This segment includes exposures to U.S. dollar-denominated fixed-income instruments. Performance of this segment is meant to exceed that of the core segment given its inherent increased risk exposure due to characteristics such as lower credit rating, among others.

2. Global Bonds

- Global Bonds — In order to take advantage of the mature fixed-income markets outside the US, this portfolio will have the flexibility to invest in any established bond market around the world. The portfolio will provide diversification to the U.S. interest rate cycle, and consequently to the U.S. fixed-income portfolio. Currency exposure will be actively managed by the manager(s) and the System will judge the effectiveness of its manager(s) against an appropriate global bond index, fully hedged.

C. Real Return

The role of the real return class is to mitigate the effects of inflation on the portfolio by focusing on investment strategies that seek to deliver incremental returns over the current rate of inflation, and by further enhancing asset diversification within the portfolio with strategies that exhibit lower correlations with equities and fixed-income. The real return class is comprised of multiple asset segments including TIPS and GIPS (inflation protected securities), hedge funds, commodities, infrastructure, and currencies. The real return policy is stated separately in the Real Return Guidelines [Appendix I].

1. Global Inflation-Linked Securities (GILS)

This allocation will provide participation in the broad Global Inflation-Linked fixed-income market. Inflation-Linked Securities are fixed-income instruments whose interest payments and/or principal values adjust over time depending on a specified measure of inflation. As a result of this structure, these instruments are structured to provide an inflation-adjusted return if held to maturity. Many of these instruments are sponsored by national governments, reducing credit risk to a significant degree. A GILS portfolio should provide a yield, over time, that is protected against changes in inflation.

2. Absolute Return

An absolute-return allocation should be regarded as a portfolio component designed to provide uncorrelated, real returns (in excess of cash and net of all costs) from active management decisions. The absolute return portfolio may consist of hedge funds, hedge fund of funds, and/or other similar instruments that exhibit market-neutral return patterns. The absolute return segment should provide stability in the Real Return class through its uncorrelated nature versus the other segments.

3. Commodities

A commodities allocation should be regarded as a portfolio component designed to provide a strong response to rapid changes in actual inflation and changes in inflationary expectations. While commodities exhibit high levels of volatility, they are viewed as being the only component that responds swiftly to inflationary factors. Given their high levels of volatility, active management of commodities and customized structuring of benchmarks and objectives are important considerations in structuring a commodities portfolio.

D. Covered Calls

The Covered Calls class is an equity-based asset class that is designed to provide some incremental income during flat to modestly rising markets, while providing some level of downside protection during market crisis. The Board expects that over the long run, Covered Calls will produce total returns in line with U.S. public equity with less volatility, but will vary markedly from U.S. public equity during market extremes. Under a bull/recovery market scenario, Covered Calls generally underperform U.S. public equity, but still tend to produce substantial upside returns. During a bear/down market scenario, Covered Calls are likely to decline in value, but by a lesser degree than U.S. public equity, providing investors with some principal protection. As a result of these attributes, Covered Calls tend to compound at a smoother rate than U.S. public equity, allowing for a potentially higher amount of wealth creation over a long-horizon holding period (i.e. 10 years). The covered calls policy is stated separately in the Covered Calls Objectives and Investment Policy [Appendix II].

E. Real Estate

This portfolio is expected to provide portfolio diversification due to real estate's low correlation with returns on equities and fixed-income. The real estate policy is stated separately in the Real Estate Investment Objectives and Investment Policy [Appendix III].

F. Private Equity

This portfolio is expected to provide portfolio diversification and additional return to the Fund's public markets portfolio.

VI. INVESTMENT MANAGEMENT POLICY

The Board will retain external investment managers to manage portfolios using a specific style and methodology. Managers will have authority for determining investment strategy, security selection, and timing subject to the Policy and Manager Guidelines and legal restrictions or other Board direction. Performance objectives will also be developed for each manager. The performance of the portfolio will be monitored and evaluated on a regular basis relative to each portfolio component's benchmark return and, if available, relative to a peer group of managers following similar investment styles.

Investment actions are expected to comply with "prudent person" standards. Each investment manager will be expected to know the rules of the Board and comply with those rules. It is each manager's responsibility to identify policies that have an adverse impact on performance and to initiate discussion with the Fund's Investment Staff toward possible improvement of the rules of the Board.

The Board will also review each investment manager's adherence to its investment policy, and any material changes in the manager's organization (e.g. personnel changes, new business developments, etc.). The investment managers retained by the Board will be responsible for informing the Board by communication with the Fund's Investment Staff of such material changes.

All bond and stock business shall be executed seeking best execution. "Best execution" means seeking to achieve the most favorable price and execution available, having in mind the System's best interest, and considering all relevant factors. These factors include price, the size of the transaction, the nature of the market for the security, current market levels and trends, the reputation, experience and financial stability of the broker involved and the quality of service rendered by the broker in other transactions. Where feasible, the stock or bonds trades shall be distributed to brokerage firms where the Investment Committee has established a commission recapture directed brokerage program.

A. Manager Selection

The selection of investment managers shall be accomplished in accordance with all applicable Local, State and Federal laws and regulations. Each investment manager, consultant and custodian shall function under a formal contract that delineates responsibilities and appropriate performance expectations.

B. Manager Authority

The Board's investment managers shall direct and manage the investment and reinvestment of assets allocated to their accounts in accordance with this document; Board rules or direction; applicable Local, State and Federal statutes and regulations; and individual management investment plans and executed contracts.

C. Limitations on Concentrations of Single Managers/Firms

In order to minimize any potential risk associated with large concentrations of SCERS portfolio assets being managed by a single firm, any single manager/firm, when all mandates associated with that manager/firm are aggregated, shall represent no more than 15% of the total SCERS portfolio. If any single manager/firm exceeds this limitation, the Investment Consultant and Staff shall provide the Board its solution to reallocate funds from that manager/firm within the portfolio to reduce the concentration within a reasonable time period.

D. Investment Manager Guidelines

In accordance with the Investment Objectives stated above, the Board shall provide each of the System's investment managers with a set of investment guidelines as stated in Appendix V. These guidelines shall specify eligible investment, minimum diversification standards, and applicable investment restrictions necessary for diversification and risk control. Managers do not have authority to depart from their guidelines. The sample guidelines in Appendix V are for illustrative purposes only.

Manager Performance Measurement

Active investment managers in each asset class will be expected to outperform passive benchmarks related to both their asset class and their investment style by at least their management fees, and to outperform the median manager in their investment style in the universe employed by the System's investment performance measurement consultant. Any investment manager not meeting the performance objectives will be subject to the manager Watch List criteria set forth below.

Watch Status of an Investment Manager/Portfolio

An investment manager/portfolio attains "watch" status if at least one of two events occurs: (i) the portfolio's investment performance does not meet one of the criteria found in the table below; or (ii) after the Portfolio Review is conducted, staff and/or the investment consultant recommends to the Board that an investment manager is a candidate for watch status. The Board then approves or disapproves the recommendation. If the Board approves the recommendation to place a specific investment manager on watch status, Staff will issue a formal notification to the investment manager. This formal notification of watch status will include, but not be limited to, the following items:

- Meeting date when the Board approved the recommendation to place the investment manager on watch;
- Reason(s) for placing the investment manager on watch status;
- Conditions for being released from watch status (see below); and
- Maximum length of watch status.

Watch status serves two basic purposes. First, it is a major decision step the Board takes to begin transitioning from one investment manager to another investment manager. Second, it allows the investment manager on watch status time to take any corrective action (or justify its changing condition) before the Board elects to terminate its existing relationship with the investment manager.

Typically, once a manager is placed on watch status, it should be able to exhibit improvement within a time frame of nine to fifteen months, if not sooner.

Release from Watch Status

Investment managers that show indications of an improvement, as reviewed by the investment consultant and determined by the Board, in one or more of the factors described earlier, may be released from watch status. Examples of improvements warranting a change in status are:

- Improved investment performance in approximately fifteen months (or less) from the time of being placed on watch status.
- Investment style characteristics return to, and remain at, levels originally agreed upon.
- Qualitative factors (such as organizational structure stabilizes, personnel adjustments, compliance requirements, etc.) are met/satisfied.

To release an investment manager from watch status, the Board must formally take action to do so. This action should be supported by documentation (produced by the investment consultant) similar in format to the Portfolio Review described above. This document would highlight original reasons for the watch status and discussion of how the investment manager has addressed these issues and warrants release from watch status.

Replacement/Termination

If an investment manager is not released from watch status within the appropriate period (given as nine-to-fifteen months from the Board's decision), then the investment consultant and/or Staff should recommend that the Board replace and/or terminate the investment manager. The Board shall approve or disapprove the recommendation.

To terminate and/or replace an investment manager, the Board must formally take action to do so. This action should be supported by documentation (produced by Staff and/or investment consultant) similar in format to the Portfolio Review described above. This document shall highlight original reasons for the watch status and discussion of continued developments during watch status that led to the termination/replacement recommendation.

Manager "Watch" Criteria*

Asset Class	Short-term (Rolling 12 month periods)	Medium-term (Rolling 36 month periods)	Long-term** (Since Inception)
Active U.S. Equity	Portfolio Return[1] < Benchmark Return -3.0% for 2 consecutive calendar quarter end dates	Portfolio Annualized Return[1, 2] < Benchmark Annualized Return -1.5% for 2 consecutive calendar quarter end dates	Portfolio Annualized Return[2] < Benchmark Annualized Return for 2 consecutive calendar quarter end dates
Passive U.S. Equity	Tracking Error[3] > 0.35% for 2 consecutive calendar quarter end dates	Tracking Error[3] > 0.20% for 2 consecutive calendar quarter end dates	Portfolio Annualized Return[1, 2] < Benchmark Annualized Return -0.10% for 2 consecutive calendar quarter end dates
Active Non-U.S. Equity	Portfolio Return[1] < Benchmark Return -4.5% for 2 consecutive calendar quarter end dates	Portfolio Annualized Return[1, 2] < Benchmark Annualized Return -2.5% for 2 consecutive calendar quarter end dates	Portfolio Annualized Return[2] < Benchmark Annualized Return for 2 consecutive calendar quarter end dates
Passive Non-U.S. Equity	Tracking Error[3] > 0.35% for 2 consecutive calendar quarter end dates	Tracking Error[3] > 0.20% for 2 consecutive calendar quarter end dates	Portfolio Annualized Return[1, 2] < Benchmark Annualized Return -0.10% for 2 consecutive calendar quarter end dates
Active Fixed-Income	Portfolio Return[1] < Benchmark Return -1.0% for 2 consecutive calendar quarter end dates	Portfolio Annualized Return[1, 2] < Benchmark Annualized Return -0.6% for 2 consecutive calendar quarter end dates	Portfolio Annualized Return[2] < Benchmark Annualized Return for 2 consecutive calendar quarter end dates
Hedge Funds (Real Return)	Portfolio Return[1] < Benchmark Return -3.5% for 2 consecutive calendar quarter end dates	Portfolio Annualized Return[1, 2] < Benchmark Annualized Return -0.6% for 2 consecutive calendar quarter end dates	Portfolio Annualized Return[2] < Benchmark Annualized Return for 2 consecutive calendar quarter end dates
Global Inflation Linked Securities (Real Return)	Portfolio Return[1] < Benchmark Return -2.0% for 2 consecutive calendar quarter end dates	Portfolio Annualized Return[1, 2] < Benchmark Annualized Return -1.5% for 2 consecutive calendar quarter end dates	Portfolio Annualized Return[2] < Benchmark Annualized Return for 2 consecutive calendar quarter end dates
Covered Calls	Portfolio Return[1] < Benchmark Return -3.0% for 2 consecutive calendar quarter end dates	Portfolio Annualized Return[1, 2] < Benchmark Annualized Return -1.5% for 2 consecutive calendar quarter end dates	Portfolio Annualized Return[2] < Benchmark Annualized Return for 2 consecutive calendar quarter end dates

*All portfolio returns are gross of manager fees.
**Long-term is defined as periods greater than 3 years.
See Addendum in Statement of Investment Policy for specific benchmark information

Notes:
[1] Return discounts from a benchmark return based on 2/3 of the typical tracking error estimates of the specified type of portfolio.
[2] Annualized Return is the average annual return of either the portfolio or its benchmark.
[3] Tracking error is a measure of the volatility of the average annual difference between the portfolio's return and the benchmark's return.

Private Equity and Real Estate funds are primarily invested in assets that are largely illiquid and generally have limited peer sets. In addition, these assets generally have imperfect benchmarks by which performance, according to vintage year and strategy, can be assessed. Funds are closely monitored for factors including, but not limited to: style drift, key-person and other management/organizational changes, vintage-year performance (realized and unrealized), performance relative to original underwriting, fees, transparency, and J-curve impact. Underperforming fund managers will be brought to the Board's attention as soon as the consultant and Staff agree the manager should be placed on watch. The termination and/or replacement of private-equity and real-estate managers is commonly more challenging than terminating managers that operate in the public markets (this is due to the long-term partnership agreements that the private managers establish with limited partners). Terminating these types of managers can exacerbate poor performance beyond that which has already been experienced. For example, in many instances the only exit option available is via secondary sales of limited partnership interests, which are often transacted at an appreciable discount to existing net asset values.

E. Securities Lending

An agreement may be made with the System's bank custodian or other third-party custodian retained by the Board to loan securities on behalf of the Retirement System. Securities that are loaned shall be fully collateralized in cash or other acceptable securities having at least 102% of the market value of the loaned security.

F. Commingled Group Trusts

Investments may be made in commingled group trusts. When the group trust is tax exempt, to meet the requirements of IRS Ruling 8 1-100 the declaration of trust governing each such group trust shall be deemed adopted as part of Seattle City Employees' Retirement System plan.

G. Derivatives

Investment in "derivatives" is permitted, however, leveraged derivatives or purchase of derivatives on credit is not permitted. Credit risk, market risk and legal risk will be determined by the Investment Committee to be appropriate before any investment is made in a derivative product. For these purposes, derivatives shall be defined as securities whose return or market value is derived from another security or market index.

H. Currency Hedging

With the approval of the Investment Committee, investment managers may hedge the currency risk associated with securities they manage for the Retirement System. Hedging may be accomplished through mechanisms approved by the Executive Director, including, but not limited to, currency futures contracts, currency purchases, and currency options. Approval to hedge must be obtained in advance and may be given orally or in writing. Managers need not obtain approval for each individual investment as long as the investment vehicle has been approved.

I. Proxy Voting of Securities

Investment managers will be given the authority to vote proxies on behalf of the Retirement System. However, if the Executive Director determines that an investment manager's voting policy, or any part thereof, does not serve the economic interests of the Retirement System, the Executive Director shall report the situation to the Investment Committee and an alternate method of voting may be selected.

Additionally, if the Executive Director is aware or has been instructed by the Board, the Executive Director may express the Retirement System's position on a given agenda item requiring proxy voting. It is the Investment Manager's responsibility to take the expression (written or verbal) under advisement and act accordingly always in accordance with the "prudent person rule."

J. Other Fiduciary Considerations

From time to time, the Board is faced with non-typical investment related considerations. When possible, the Board may give consideration to those issues so long as they do not conflict with their fiduciary obligations, and are in the best interest of the member of the System.

Economically Targeted Investments

Investment in securities of companies which promote a socially desired goal such as rewarding nondiscrimination and promoting local industry will be given priority if the investment meets the goals of the Retirement System and if the resulting return on investment and related risk are comparable to other available investments in the same category.

Geopolitical and Social Issues

The Retirement Board maintains its fiduciary obligations to the members of the System as its top priority. This requires the Board to act prudently and in the exclusive interest of participants in the management of System assets. In light of this duty, the Retirement Board will give consideration to investments in securities of companies that meet a high ethical and social standard of conduct in their operations, which, in the long-term, are expected to result in superior investment performance. As a result, the Retirement Board expects that its portfolio managers will give consideration to the following geopolitical and social issues when investing in portfolio companies including, but not limited to, the following:

- Respect for Human Rights
- Respect for Civil Liberties
- Respect for Political Rights
- Discrimination Based on Race, Sex, Disability, Language or Social Status
- Worker Rights
- Environmental
- War, Conflicts, and Acts of Terrorism

Investments will not be selected, rejected, or divested from based solely on geopolitical and social issues. The Retirement Board will, however, give serious consideration to such issues to the extent that such issues bear on the financial advisability of the investment.

VII. POLICY FOR THE USE OF PLACEMENT AGENTS

The System shall require the specific and timely disclosure of payments and compensation to Placement Agents[1] in connection with the System's investments. This Policy is intended to apply broadly to all investment contracts made by the System. The goal of this Policy is to help ensure that the System investment decisions are made by the Board solely on the merits of the investment opportunity in accordance with the Board Members' fiduciary responsibility and to avoid the appearance of undue influence on the Board or illegal pay-to-play practices in the award of investment related contracts.

A. Manager Placement Agent Disclosures

Each Manager shall provide to the System the required information listed below within 45 days of the initiation of investment discussions between the Manager and the System but in any event prior to the completion of due diligence. The Manager must notify the System Staff of any changes to any of the information required within 14 calendar days of the Manager knowing of the change(s).

1. *Disclosure of Payments Made to Placement Agents*

   a. A written statement of whether the Manager or any of its principals, employees, agents or affiliates has compensated or agreed to compensate any person or entity to act as a Placement Agent in connection with the System's investments.

   b. The name of the Placement Agent, and resumes of every officer, partner and principal of the Placement Agent. The resumes shall include educational history, professional designations, regulatory licenses and investment and work experience.

   c. Description of any and all compensation paid or agreed to be paid to the Placement Agent, including payment to employees of the Manager who are retained in order to solicit, or who are paid based in whole or in part upon, an investment from the System.

[1] "Placement Agent" includes any person or entity hired, engaged, retained by, acting on behalf of or serving for the benefit of an Investment Manager or on behalf of another Placement Agent as a third-party marketer, finder, solicitor, marketer, consultant, broker, or other intermediary to market, solicit, obtain access to the System, and/or raise money or investments either directly or indirectly from the System. Notwithstanding the foregoing, an individual who is an employee, officer, director, equity holder, partner, member or trustee of an Investment Manager and who spends one-third or more of his or her time, during a calendar year, managing the securities or assets owned, controlled, invested or held by the Investment Manager is not a Placement Agent.

d. Description of the services rendered or the services expected to be performed by the Placement Agent and a list of the prospective clients for which such Placement Agent is utilized.

e. Copies of all agreements between the Manager and the Placement Agent.

f. Name of the regulatory agencies the Placement Agent or any of its affiliates are registered with, such as The Securities and Exchange Commission (SEC), the Financial Industry Regulatory Association (FINRA), or any similar regulatory agency; proof and details of such registration shall be included, or an explanation as to why no registration is required.

2. Disclosure of Relationships to the Board; Campaign Contributions

a. Full disclosure of any connection between the Placement Agent or the Manager and the System, including whether anyone receiving compensation or who will receive compensation with respect to an investment from the System from the Placement Agent or the Manager is: a current or former System Board Member, System employee, or System consultant; a member of the immediate family of anyone connected to or formerly connected to the System; a current or former elected or appointed official of the City of Seattle, a current or former employee of the City of Seattle; or anyone seeking to be elected to public office of the City of Seattle or a member of his/her campaign organization or a political action committee.

b. Full disclosure of the donations made by the Placement Agent or the Manager during the prior 24-month period to any organization (including contributions to political campaign funds and donations to non-profits) in which any person listed in Paragraph 2.a is an officer, employee, or member of the Board or Advisory Board (or similar body). Additionally, any subsequent donations made by the Placement Agent or the Manager to any such organization during the time the Placement Agent or the Manager is receiving compensation in connection with a the System investment shall also be disclosed.

c. Full disclosure of the names of any current or former System Board Members, System employees or the System consultants who suggested the retention of the Placement Agent

B. <u>Responsibilities of Staff and Consultants</u>

At the time that investment discussions between a Manager and the System for a prospective investment commence, Staff is responsible for providing Managers and Placement Agents with a copy of this Placement Agent Policy.

Staff and Consultants must confirm that the applicable Placement Agent disclosures have been received prior to the completion of due diligence and completion of any recommendation to proceed with the decision to invest with the Manager. For new contracts and amendments to existing contracts, the System will:

- Stop investment negotiations with a Manager who refuses to disclose the required information;

- Decline the opportunity to retain or invest with a Manager who has used or intends to use a Placement Agent who is not registered with the SEC, FINRA, or any similar regulatory agency and cannot provide an explanation as to why no registration is required; and

Staff and Consultants will assist legal counsel as necessary for securing in the final contract terms and side letter agreements between the System and the Manager, including but not limited to, the following:

- The Manager’s agreement that it has complied with and will continue to comply with this Policy.

- The Manager’s representation and warranty that it will notify the System Staff of any changes to any of the information required above within 14 calendar days of when the Manager knows or should have known of the change(s).

At any meeting where an investment decision with a Manager will be considered, Staff and Consultants must notify the Board of the name(s) of any Placement Agent(s) used by the Manager in connection with the proposed investment, and any campaign contributions or gifts reported by each Placement Agent.

Staff must maintain records of all information disclosed to the System in accordance with this policy, and provide the Board with notice of any violation of this policy as soon as practicable.

C. Responsibilities of Counsel

Legal counsel to the System must secure in the final contract terms and side letter agreements between the System and the Manager all requisite agreements and representations and warranties by the Manager for compliance in accordance with this Policy.

D. Responsibilities of the Board

The Board must review all violations of this policy reported by Staff, consider whether each violation is material, and consider whether to prohibit that Manager and/or Placement Agent from soliciting new investments from the System for a period (the length of such period to be in its sole discretion) from the date of the determination.

APPENDIX I-REAL RETURN GUIDELINES

INTRODUCTION

In accordance with the objectives of the Statement of Investment Policy and Procedures of the Seattle City Employees' Retirement System (the "System" or "SCERS"), the System has created a real return investment class. The role of the real return investment class is to mitigate the effects of inflation on the portfolio by focusing on investment strategies that seek to deliver incremental returns over the current rate of inflation, and by further enhancing asset diversification within the portfolio with strategies that exhibit lower correlations with equities and fixed-income.

This class can include investments in managed accounts, commingled funds, partnership interests, or fund-of-funds interests in the following categories:

- TIPS and GIPS (inflation protected securities)
- Hedge Funds
- Commodities
- Infrastructure
- Currencies

OBJECTIVE

The Real Return Class is to be structured as a combination of multiple underlying assets and/or vehicles, so that the aggregate class exhibits stable returns and inflation-protecting characteristics. The objective of this class is to protect against rising inflation, and capture a relatively stable and incremental return over inflation, while diversifying both the equity risk and nominal interest rate risk of the total portfolio.

BENCHMARK

Over rolling five-year periods, the real return class is expected to generate a total rate of return, net of investment management fees, that exceeds CPI plus 3%.

ELIGIBLE INVESTMENT APPROACHES

The SCERS Real Return class is "objectives-based." The objectives of the class are to provide inflation protection to the portfolio (a positive correlation with rising inflation), a low correlation with equity and nominal interest rate risk, and a relatively stable incremental return above the rate of inflation. In order to achieve these objectives, the class will be comprised of various weightings in the following underlying strategy components.

- Net long TIPS and GIPS (inflation protected securities)
- Hedge Funds/Absolute-Return Strategies
- Net long commodity futures
- Partnership investments or equivalents (for Oil & Gas, Infrastructure, Timber, etc.)
- Listed securities (e.g., Master Limited Partnerships)

The Real Return class allocations shall be revised periodically as appropriate and updated through a biennial Investment Plan. The Investment Plan shall contain class goals and objectives, structure and strategic approach. Included in the Investment Plan shall be a strategic range for each strategy component. The ranges may change over time as conditions warrant, as approved by the System's Board. The current range criteria are highlighted below:

Real Return Class Category	**Approved Range**
Inflation Linked Bonds	40-80%
Hedge Funds (absolute-return portfolio)	20-50%
Commodities	0%-40%
Infrastructure	0%
Currencies	0%

ABSOLUTE RETURN PORTFOLIO – DIVERGENT/CONVERGENT ALLOCATIONS

An institutional hedge-fund, absolute-return allocation should be regarded as a portfolio component designed to provide uncorrelated, real returns (in excess of cash and net of all costs) from active management decisions. In order for the hedge fund portfolio to deliver on a promise of an uncorrelated return during both normal markets and crisis markets, the portfolio should contain significant exposure to strategies based on momentum, sentiment, and trend-following (divergent strategies, see below) that are negatively correlated to strategies based on capturing intrinsic value (convergent strategies, see below) when market turmoil is significant.

Divergent Strategies
Divergent strategies concentrate solely on supply and demand factors. These factors may or may not have anything to do with market and/or security fundamentals. They are as likely to be driven by psychological, geopolitical or technical factors, as by fundamental/intrinsic value considerations. These types of strategies may be pursued using currencies, equities, futures, options, or most any other type of liquid instrument. These strategies tend to have more of a macro focus. Examples of classifications of these types of strategies include:

- Global macro
- Managed futures
- Proprietary trading strategies

Convergent Strategies
Convergent strategies are based on the premise that securities have an intrinsic value based on their future cash flows and the degree of uncertainty surrounding those future cash flows. These strategies seek to benefit from the convergence of the security towards its intrinsic value. Furthermore, many of the arbitrage strategies assume that there is compensation (on average) for bearing exposure to illiquidity risk. These strategies tend to have more of a micro, company or security specific focus. Examples of these strategies include:

- Equity market neutral
- Equity long-short
- Relative value
- Event driven
- Arbitrage strategies

Percentage Allocation to Divergent / Convergent Strategies
The absolute-return portfolio should aim to maintain 60/40 mix of divergent / convergent strategies, respectively. Convergent and divergent strategies tend to offset one another, and divergent strategies tend to be significantly less correlated with equities during major market dislocations. Therefore, the combined portfolio structure should produce a more consistent outcome, in general, even during times of significant market turmoil.

Convergent / divergent strategies may be managed by the same fund-of-funds manager, or as two separate fund-of-funds allocations.

Portfolio Construction Factors (qualitative)
The desired qualitative attributes in a well-constructed absolute-return portfolio are:

1. Sufficient diversification
2. Reasonable liquidity
3. Reasonable transparency

Diversification
The portfolio should seek to diversify individual managers, and strategies (including both convergent and divergent), and should seek to isolate each individual management organization from the exogenous and endogenous issues that can impact any one organization (i.e. redemptions, blowup risk, fraud, organizational upheaval, etc.).

Liquidity
The portfolio should have reasonable liquidity so that it can be rebalanced within a reasonable time period. Illiquid strategies, such as private equity, do not belong in this portfolio.

Transparency
Finally, the portfolio must be transparent. While it is typically not necessary or constructive to have real-time, position-level portfolio transparency, those responsible for the portfolio's construction and monitoring should have this level of access when desired. Institutions engaged by the plan sponsor to monitor the portfolio need to have sufficient periodic access to the portfolio's underlying positions, along with ongoing dialogue with decision makers at the underlying managers, to assess each strategy's implementation and risk positions.

MONITORING AND REPORTING OF THE ABSOLUTE-RETURN PORTFOLIO

Establishing a clear framework for setting program expectations and assessing program effectiveness is paramount to allow decision makers to fulfill their program oversight responsibilities. Clear communication of the expected sources of returns and the broad risks borne by each strategy type provides decision makers with requisite understanding of program drivers, making the decision maker's monitoring and assessment of the program possible. The hedge-fund portfolio's return and diversification attributes will be reported on an ongoing basis, and reviewed at least annually to ensure the category is providing the attributes expected from the portfolio.

APPENDIX II-COVERED CALLS GUIDELINES

INTRODUCTION

In accordance with the objectives of the Statement of Investment Policy and Procedures of the Seattle City Employees' Retirement System (the "System" or "SCERS"), the System has a commitment to covered calls investments. The Covered Calls class is an equity-based asset class that is designed to provide some incremental income during flat to modestly rising markets, while providing some level of downside protection during market crisis.

OBJECTIVE

The Board expects that over the long run, Covered Calls will produce total returns in line with U.S. public equity with less volatility, but will vary markedly from U.S. public equity during market extremes. Under a bull/recovery market scenario, Covered Calls generally underperform U.S. public equity, but still tend to produce substantial upside returns. During a bear/down market scenario, Covered Calls are likely to decline in value, but by a lesser degree than U.S. public equity, providing investors with some principal protection. As a result of these attributes, Covered Calls tend to compound at a smoother rate than U.S. public equity, allowing for a potentially higher amount of wealth creation over a long-horizon holding period (i.e. 10 years).

BENCHMARK

The Covered Calls class shall have a benchmark index of the Chicago Board Options Exchange S&P 500 BuyWrite Index (the "BXM Index").

PERFORMANCE AND RISK OBJECTIVES

For active managers, the performance objective is to outperform the benchmark, net of all fees, over 3-5 years.

For replication managers, the performance objective is to match the benchmark, gross of fees, over 3-5 years.

Tracking Error Objective:
For active managers, the volatility of their portfolio's incremental return compared to that of the benchmark should not exceed 4.0% annualized over 3-5 years.

For replication managers, the volatility of their portfolio's incremental return compared to that of the benchmark should not exceed 2.0% annualized over 3-5 years.

ELIGIBLE SECURITIES

Portfolios should consist of three components: underlying equity, call options, and cash.

- The underlying equity should be designed to replicate the S&P 500 Index.
  - This can be accomplished through individual stock ownership, or the utilization of ETFs to gain broad market exposure.
  - No purchase should be made that causes an individual security to exceed 5% of the underlying equity portfolio, where those securities constitute less than 3% of the current market capitalization of the S&P 500 Index, unless an ETF is employed.
  - All underlying equity should be U.S. equity.

- Call options may be used to provide income and risk control.
  - The notional value of the options may not exceed the total value of the underlying equity portfolio.
  - Call options may only be written on positions of U.S. stock indices, broad U.S. market or sector ETFs, and individual U.S. stocks that are held in the underlying portfolio.
  - Managers may repurchase options in order to close out positions.

- Cash may exist as an intermediary component from additional funding or option premiums. The balance should not normally exceed 1% of the manager’s total portfolio.
- Leverage may not be used.

APPENDIX III-REAL ESTATE GUIDELINES

INTRODUCTION

In accordance with the objectives of the Statement of Investment Policy and Procedures of the Seattle City Employees' Retirement System (the "System" or "SCERS"), the System has a commitment to real estate investment. The role of the real estate portfolio is to provide the total portfolio with diversification through low correlation with returns on equities and fixed-income.

Real Estate Defined – Real estate assets are defined as those investments that are unleveraged or leveraged equity positions in real property. SCERS may pursue direct privately held partnership interests, publicly traded real estate securities, fund-of-funds interests, and direct holdings for its real estate allocation.

Asset Allocation – The SCERS allocation to equity real estate shall remain within the limits authorized by the Board of Trustees. The current target allocation is 11% of the total SCERS fund market value.

OBJECTIVE

The strategic objective of the Real Estate Program (the "Program") is to develop a diversified real estate portfolio capable of achieving investment returns commensurate with Program targets. Real estate has a low correlation to other investment classes and, therefore, can contribute to reducing the risk and enhancing the returns of the total portfolio. Since the majority of the System's total portfolio is invested in publicly traded equities and fixed-income, the majority of the real estate program should be invested in private real estate in order to achieve the greatest diversification.

BENCHMARK

Over rolling five-year periods, the real estate program is expected to generate a total rate of return, net of investment management fees, that equals or exceeds the NCREIF Fund Index Open-End Diversified Core Equity (NFI-ODCE).

RISK CLASSIFICATIONS

The SCERS real estate program will be comprised of two different but complementary components – core and non-core.

Core Real Estate Defined

Core investments include existing, substantially leased, income-producing properties located principally in economically diversified metropolitan areas. Core properties generally should have the following characteristics:

- Existing properties that demonstrate predictable income flows with a high proportion of anticipated total return arising from current income and cash flow
- At least 70% leased upon purchase of the asset
- Credit quality tenants and a staggered lease maturity schedule
- Quality construction and design features
- Reasonable assurance of a broad pool of potential purchasers upon disposition
- Investments structures using all cash or limited leverage. Leverage is limited to 50% on each investment and is not to exceed 40% on the total portfolio

Non-Core Real Estate Defined

Non-core investments represent those properties and/or investment strategies that require specialized acquisition and management expertise or skill to mitigate the business and leasing risk that may be associated with individual investments. Non-core investments, which may be referred to as Value Added and Opportunistic investments, have greater volatility compared to core investments, and as such are expected to provide yields higher than those associated with core investments.

Value Added investments include traditional core property types, as well as specialized property types, such as resort hotels, senior housing or student housing that require specialized management skills and operating business expertise. Additional risks may include leasing, repositioning and redevelopment. Value added strategies often include the curing of identified deficiencies through intensive management, increased cash flow and disposition of stabilized assets to capture value creation. Value Added strategies may use leverage up to 65% at the sub-portfolio level.

Opportunistic investments seek to capitalize on tactical opportunities, mispricing or distress in the real estate and capital markets and generally involve additional risk. Investments may include direct real estate assets in traditional and specialized property sectors, land, operating companies, distressed debt, workouts, and other specialized investments. Opportunistic strategies include development, extensive redevelopment, non-traditional investment vehicles (e.g. non-performing loans), entity level investments or recapitalization of assets or companies. Opportunistic investment strategies may also include international/emerging markets. Opportunistic investments may use leverage up to 75% at the sub-portfolio level.

The real estate program shall have the following allocation between core and non-core risk classifications over the long term. Non-core strategies that derive a substantial portion of their returns from appreciation will be used to enhance returns and provide additional diversification. Due to the significant increase in risk associated with appreciation oriented investments, these types of investments shall be limited to 30% of the real estate portfolio market value (with a target of 20%) and have a higher rate of return target than the total real estate portfolio return objectives.

Risk Classification	Target	Range
Core	80%	70% - 100%
Non-Core	20%	0% - 30%

Should the real estate program fall outside of these ranges, effort should be made to rebalance the real estate portfolio over time with the understanding that most real estate investments are relatively illiquid and the real estate program cannot be rebalanced as quickly as a public equity portfolio.

INVESTMENTS AND RISK MANAGEMENT

The SCERS Staff shall manage the investment risk associated with real estate in several ways.

Institutional Quality: All assets within the Core portfolio must be of institutional investment quality as evidenced by a history of institutional investment in similar properties; expert analysis which supports the economic viability of the market; high quality construction and design features; and a current or potentially competitive position within the property's immediate market area.

Diversification: The real estate portfolio should be diversified by geographic region, property type and property life cycle. Diversification reduces the impact on the portfolio of any one investment or any single investment manager's style to the extent that an adversity affecting any one particular area will not impact a disproportionate share of the total portfolio. Generally, no single investment manager should manage more than 25% of the System's real estate assets.

Geographic Diversification:	Range
U.S.	90%-100%
Non-U.S.	0%-10%

Property Type:	Range
Apartment	10% - 40%
Industrial	10% - 40%
Office	10% - 40%
Retail	10% - 40%
Hotel	0% - 15%
Other	0% - 15%

"Other" property types include those property types not classified by the NFI-ODCE Index, such as seniors housing, student housing, and land.

The majority of investments should be stabilized, core investments. Developments (which are considered Opportunistic investments and thus part of the Non-core allocation) may be included but shall be limited to no more than 10% of the total real estate program.

Investment Lifecycle:	Range
Development	0% - 10%

Leverage: Leverage may be utilized in a constrained manner in the Core portfolio in order to enhance yields of the various investments and/or facilitate the diversification of the portfolio. The total level of debt for any single investment will not exceed fifty percent (50%) of the value of that asset. Total portfolio debt will be limited to forty percent (40%). No debt may be incurred that is recourse to the System.

SCERS intends to invest in non-core commingled funds that utilize higher levels of leverage as a component of their investment strategy. Generally funds considered for investment by SCERS in the Opportunistic category will limit overall leverage to 75% loan to value at the portfolio level with no restriction at the asset level.

Risk Classification	Leverage Limit
Core	40%
Non-Core	70%
Total Real Estate Portfolio	50%

Investment Vehicles: The real estate portfolio shall primarily invest in private real estate vehicles. Publicly traded real estate may be used tactically or for portfolio completion.

Investment Vehicle	Range
Publicly Traded Vehicles	0% - 100%
Private Vehicles	0% - 100%

Prohibited investments: The real estate portfolio shall not invest in the following:
- Directly held real estate operating companies
- Directly held secondary interests
- Investments in frontier markets as defined by FTSE EPRA/NAREIT

RESPONSIBILITIES AND DELEGATIONS

1. The System's Board shall approve and amend the Investment Policy, Investment Plan and potential investment opportunities for the Program. In addition, the Board shall oversee program performance and will act in a fiduciary capacity in the exercise of its duties.

2. Staff shall:

- Manage day-to-day operations
- Make referrals to the Real Estate consultant for in-depth analysis and due diligence, on occasion
- Assist Real Estate consultant with due diligence, in making recommendations to the Board and on-going monitoring and reporting
- Be able to potentially supplement the operational due diligence efforts with a third-party service
- Execute agreements

3. The Real Estate consultant shall assist in the development and implementation of the Program and will act as fiduciary to the System. These tasks shall include:

- Assistance in development of the Investment Policy and guidelines for the Program
- Strategic and annual Program management and planning
- Deal flow management and sourcing opportunities
- Investment due diligence and terms negotiation
- Performance monitoring

INVESTMENTS

1. The following requirements shall apply for all potential Real Estate investments:

- The principals shall demonstrate relevant experience in or directly applicable to the market in which they propose to work.
- The principals shall demonstrate that they are specifically qualified to pursue the proposed strategy in the market in which they propose to work.
- The principals shall demonstrate the requisite skills and experience necessary to execute successfully the proposed strategy, including evidence from similar endeavors.
- The principals shall dedicate sufficient time and effort to the proposed opportunity and make, within the context of the particular investment, a meaningful personal financial commitment.
- The proposed strategy and business plan shall be set forth in sufficient detail to permit substantive and meaningful review of the opportunity, verification of the investment concept, and of the risk factors.
- The proposed strategy and business plan shall provide reasonable assurance that the investment opportunity can produce the required return.
- The risk/reward trade-off in the particular market that is addressed by a partnership proposal shall be attractive, based on reasonable assumptions.
- The principals shall have a significant economic position in the partnership.

2. The evaluation analysis will primarily emphasize the quality and experience of the general partner in a potential investment. Additional factors may include, as appropriate:

    - Fit with the System's Investment Policy and Investment Plan and within the Program
    - A unique strategy that is not directly competitive with existing investments
    - Integrity of the general partner, its employees, and other investors
    - Quality of overall partnership governance and management of the partnership, including controls and reporting systems
    - Specific objectives
    - Relationship with the relevant parts of the investment community
    - Relationship with limited partners
    - Nature of value added involvement
    - Past financial performance of the individual investment professionals
    - Appropriateness of terms and conditions
    - Alignment of interests with limited partners
    - Capital at risk

3. Due diligence review of a general partner shall include, at a minimum, the following:

    - Discussions with principals of the general partner for the proposed investment, including an onsite visit to the general partner's offices
    - Review and analysis of all pertinent offering documents including: offering memoranda, subscription agreements and private placement memoranda
    - Consideration of potential conflicts of interest, if any, posed by the proposed investment and prior investments and activities of the principals
    - Review and analysis of the investments, including entry and exit strategies; terms such as fees, principal participation, and structure; fit within the Program; fit within the Investment Plan; other constraints and guidelines; and compliance with applicable investment policies
    - Reference checks of principals
    - Review and analysis of track record including performance of prior and current investments
    - Review of any lawsuits, litigation involving the general partner, its principals, employees and prior funds

4. The approval decision as it relates to direct privately held partnership interests, publicly traded real estate securities, debt investment, and funds-of-funds interests shall be completed following a positive written recommendation by the Real Estate consultant with assistance from Staff.

MONITORING AND REPORTING

1. Staff shall require periodic reports (i.e. quarterly) from investment partners to facilitate monitoring.

2. Staff and the Real Estate consultant shall monitor the individual partnerships and the portfolio as a whole. The following types of diversification should be monitored, including, but not limited to:

   - Risk Classification
   - Geographic Diversification
   - Property Type Diversification
   - Investment Lifecycle
   - Vintage year
   - Use of Leverage
   - Types of Investment Vehicles

3. The System shall assess the performance of the investments relative to the following areas:

   - Objectives established, including real estate benchmark
   - Risk undertaken
   - Policy limits

4. The Real Estate consultant will prepare and present portfolio management reports on a semi-annual basis. The management report will provide information on portfolio diversification, partnership performance, and committed and funded status.

APPENDIX IV-PRIVATE EQUITY GUIDELINES

INTRODUCTION

In accordance with the objectives of the Statement of Investment Policy and Procedures of the Seattle City Employees' Retirement System (the "System" or "SCERS"), the System has a commitment to illiquid equity and equity-related funds actively managed by specialized professionals to achieve a total rate of return superior to public equity vehicles.

The portfolio holding these assets is identified as Private Equity. This portfolio can include direct partnership interests, funds-of-funds and secondary interests in the following market segments:

- Leveraged Buyout
- Venture Capital
- Debt Related
- Other (i.e. Special Situations, Natural Resources, etc.)

OBJECTIVE

The strategic objective of the Private Equity program (the "Program") is to develop a diversified private equity portfolio capable of achieving investment returns commensurate with Program targets. Private equity investments are expected to achieve attractive risk-adjusted returns and, by definition, possess a higher degree of risk with a higher return potential than traditional investments. Accordingly, total rates of return from private equity investments are expected to be greater than those that might be obtained from conventional public equity or debt investments. They have a low correlation to other investment classes and therefore can contribute to reducing the risk and enhancing the returns of a total portfolio, as well as providing portfolio diversification.

These Private Equity guidelines cover the purchase, sale, and transfer of direct partnership interests, funds-of-funds and secondary interests. The subject investments may be in private vehicles and securities.

INVESTMENT APPROACHES AND PARAMETERS

The following represent the approved policies to be utilized in the management of the private equity segment of the total investment portfolio. The policies are designed to set boundaries for the expected performance and structure.

1. The Private Equity portfolio shall be invested to provide enhanced investment returns. Generating high rates of return shall always be the primary objective with diversification being an ancillary benefit.

   The Private Equity portfolio performance benchmark shall be the **Russell 3000 Index plus 3%**. Use of the Russell 3000 Index reflects the opportunity cost of investment in private equity versus publicly traded common stocks.

   - For semi-annual asset class reporting, performance data will be presented on an internal rate of return ("IRR") basis.
   - For quarterly total fund reporting, performance data will be presented on a time-weighted total return basis, lagged 90 days.

   To minimize the effects of volatility experienced by the public markets in the near term on the benchmark, comparisons will emphasize longer time periods.

2. The Program strategy shall be revised periodically as appropriate and updated through the Investment Plan. The Investment Plan shall contain Program goals and objectives, structure and strategic approach. The Investment Plan shall also include an analysis of the investment environment, a review of the asset class' investment strategy, a review of the diversification targets and a resource allocation budget.

   Included in the Investment Plan shall be a strategic target and range for each market segment. The target and range may change over time as conditions warrant as approved by the System's Board. The target and range criteria are included as Exhibit A.[2] The diversification criteria will be reviewed on an annual basis.

3. Diversification within the Private Equity portfolio is critical to control risk and maximize returns. The specific investments shall be aggregated, evaluated, and monitored to control unintended biases. Diversification can occur across the following parameters.

    - **Market Segment –** The market segments are defined as Leveraged Buyout, Venture Capital, Debt Related and Other.

    - **Vintage Group** – Vintage year is defined by the final closing date of the limited partnership. Investments within market segments shall be stratified by vintage year to mitigate the impact of fund flow trends within each segment.

    - **Economic Sector –** Economic sectors are described by categories such as financial services, consumer, technology, medical health, etc.

    - **Geographic Location –** Geographic regions are defined as the location of the head office of the portfolio company. The geographic breakdown is expressed as the United States, Europe, Asia and the Rest of the World. While the current Program will focus on investments primarily in the United States, as it continues to mature, it is anticipated that investments in other geographies will be considered.

4. The Program shall be continually refined to obtain the most effective mix of investments. Investments shall be continually reviewed in the following areas:

    - Fit with the Investment Plan
    - Pace and timing of investment commitments, funding and return of capital
    - Diversity of sectors (industry, geographical, investment style, and others as appropriate)
    - Targeted performance according to stated objectives specific to the investment

5. Investments shall not be approved for the sole purpose of aligning one specific diversification range. Projected rate of return, risk and other policies shall receive consideration in addition to diversification.

6. The Program will be exposed to specific risk parameters that are associated with investing in private equity, including, but not limited to:

    - Operating and Business Risk: Certain private equity investments entail above average operating and business risk.

    - Liquidity Risk: Private equity investments lack liquidity and typically have time horizons of 5-to-10 years. Secondary markets for such investments are limited; and, often, there is no current income.

    - Structural Risk: Specific fundamental rights and protections are negotiated, which include mechanisms for taking remedial action. These basic protections may include advisory committee participation and specific termination provisions in partnership transactions.

    - Valuation Risk: Partnerships shall be evaluated to determine if the general partner employs an appropriate valuation discipline.

[2] The approved ranges and targets reflect the long-term goals that the Program will aim to achieve as it continues to mature. During the early stages of the Program, it is anticipated that the portfolio's actual allocations to these market segments will fluctuate initially.

RESPONSIBILITIES AND DELEGATIONS

1. The System's Board shall approve and amend the Investment Policy, Investment Plan and potential investment opportunities for the Program. In addition, the Board shall oversee program performance and will act in a fiduciary capacity in the exercise of its duties.

2. Staff shall:

   - Manage day-to-day operations
   - Make referrals to Private Equity consultant for in-depth analysis and due diligence, on occasion
   - Assist Private Equity consultant with due diligence, in making recommendations to the Board and on-going monitoring and reporting
   - Execute agreements

3. The Private Equity consultant shall assist in the development and implementation of the Program and will act as fiduciary to the System. These tasks shall include:

   a. Assistance in development of the Investment Policy and guidelines for the Program

   b. Strategic and annual Program management and planning

   c. Deal flow management and sourcing opportunities

   d. Conducting investment due diligence, recommending opportunities and negotiating terms

   e. Performance monitoring

INVESTMENTS

1. The following requirements shall apply for all potential Private Equity investments:

   - The principals shall demonstrate relevant experience in or directly applicable to the market in which they propose to work.
   - The principals shall demonstrate that they are specifically qualified to pursue the proposed strategy in the market in which they propose to work.
   - The principals shall demonstrate the requisite skills and experience necessary to execute successfully the proposed strategy, including evidence from similar endeavors.
   - The principals shall dedicate sufficient time and effort to the proposed opportunity and make, within the context of the particular investment, a meaningful personal financial commitment.
   - The proposed strategy and business plan shall be set forth in sufficient detail to permit substantive and meaningful review of the opportunity, verification of the investment concept, and of the risk factors.
   - The proposed strategy and business plan shall provide reasonable assurance that the investment opportunity can produce the required return.
   - The risk/reward trade-off in the particular market that is addressed by a partnership proposal shall be attractive, based on reasonable assumptions.
   - The principals shall have a significant economic position in the partnership.

2. The evaluation analysis will primarily emphasize the quality and experience of the general partner in a potential investment. Additional factors may include, as appropriate:

    - Fit with the System's Investment Policy and Investment Plan and within the Program
    - A unique strategy that is not directly competitive with existing investments
    - Integrity of the general partner, its employees, and other investors
    - Quality of overall partnership governance and management of the partnership, including controls and reporting systems
    - Specific objectives
    - Relationship with the relevant parts of the investment community
    - Relationship with limited partners
    - Nature of value added involvement
    - Past financial performance of the individual investment professionals
    - Reasonable ratio of underlying partnerships/portfolio companies per partner
    - Reasonable ratio of committed capital per partner
    - Appropriateness of terms and conditions
    - Alignment of interests with limited partners
    - Capital at risk

3. Due diligence review of a general partner shall include, at a minimum, the following:

    - Discussions with principals of the general partner for the proposed investment, including an onsite visit to the general partner's offices
    - Review and analysis of all pertinent offering documents including: offering memoranda, subscription agreements and private placement memoranda
    - Consideration of potential conflicts of interest, if any, posed by the proposed investment and prior investments and activities of the principals
    - Review and analysis of the investment, including entry and exit strategies and terms including fees, principal participation and structure and fit within the Program, including fit with the Investment Plan, other constraints and guidelines, and compliance with applicable investment policies
    - Reference checks of principals
    - Review and analysis of track record including performance of prior and current investments
    - Review of any lawsuits, litigation involving the general partner, its principals, employees and prior funds

4. The approval decision as it relates to direct partnerships, funds-of-funds and secondary partnerships shall be completed following a positive written recommendation by the Private Equity consultant with assistance

from Staff.

MONITORING AND REPORTING

1. Staff shall require periodic reports (i.e. quarterly) from investment partners to facilitate monitoring.

2. Staff and the Private Equity consultant shall monitor the individual partnerships and the portfolio as a whole. Monitoring includes diversification across private equity investment types to assure an appropriate mix reducing risk in the Program's investments. Given the opportunistic nature of the Program, specific areas may be emphasized over the short-term with the long-term goal of developing a diversified program.

   The following types of diversification should be monitored, including, but not limited to:

   - Economic Sector Diversification: Private equity investments should be diversified among sector groups;

   - Form of Investment: Private equity investments should be diversified throughout various market segments (e.g., leveraged buyouts, venture capital, distressed, mezzanine, etc.);

   - Payback Diversification: Private equity investments can take significant time to pay back capital. The System should attempt to invest in partnerships across a spectrum of payback scenarios;

   - Geographic Diversification: The System should consider geographical diversification in investment selection; and

   - Time Diversification: The System should endeavor to invest in a consistent manner when appropriate risk adjusted return opportunities are available.

3. The System shall assess the performance of the investments relative to the following areas:

   - Objectives established

   - Risk undertaken

   - The long-term performance objective, with appropriate interpretation if applied to the short-term.

4. The Private Equity consultant will prepare and present portfolio management reports on a semi-annual basis. The management report will provide information on portfolio diversification, largest holdings, common holdings, partnership performance, and committed and funded status.

EXHIBIT A

The following reflect the long-term ranges and targets that the Program will aim to achieve as it continues to mature. During the early stages of the Program, it is anticipated that the portfolio's actual allocations to these market segments will fluctuate initially.

Private Equity Market Segment	**Approved Range**	**Approved Target**
Buyout	50-85%	65%
Venture Capital	5- 15%	10%
Debt Related	5- 20%	15%
Other (Special Situations, Natural Resources, etc.)	0-15%	10%
Total		100%

Disclaimer: The following investment management guidelines are for illustrative purposes only.

APPENDIX-V INVESTMENT MANAGER GUIDELINES

[SAMPLE U.S. EQUITY]
INVESTMENT MANAGEMENT GUIDELINES AND OBJECT IVES
FOR
MANAGER XYZ

[mandate style]

Definition of Manager Style

[MANAGER XYZ] will manage a [mandate style] oriented portfolio which will invest in [ex: U.S. traded stocks of companies] which are undervalued relative to the market in terms of assets, normalized earnings, dividend yields and other appropriate evaluation measures. It is expected these companies generally will be [ex: larger firms] with established operating records. The goal of this management style will be to outperform the market as represented by the [benchmark].

Investment Objectives

On a time-weighted total return basis, investment performance is expected to exceed the [benchmark] by 1% over a full business cycle.

Investments

Issues will be listed on the New York Stock Exchange, American Stock Exchange, Regional Exchanges or Over-the-Counter markets. ADRs and International Stocks that trade on these U.S. exchanges are also allowed at a maximum of 10% of the portfolio market value in the aggregate.

[specific style expectation — ex: The active value equity style manager shall have as its guidelines an emphasis on equities producing total return through appreciation and dividend income.]

The firm shall have a history of consistent, successful [style] investing of at least five years (or the appointed portfolio manager can demonstrate a five-year history of previous career performance within the last seven years). There will be a maximum of *5%* cash or cash equivalents in the portfolio excluding cash held in connection with pending purchases and sales, put and call options, margin purchases, letter stock, direct or private placements, or commodities.

Diversification

No more than *5%* of the manger's portfolio at cost, and 8% at market value, shall be invested in any one company. No more than *25%* of the portfolio at market value shall be invested in any one economic sector as defined by Standard & Poor's Global Industry Classification Standard (GICS).

Capitalization

[ex: Only securities of companies with a minimum market capitalization of $600 million are permissible.]

Portfolio Characteristics

The portfolio's price to book will generally be lower than that of the [benchmark], the price to earnings will generally be lower than the [benchmark] and the dividend and/or3 yield will generally be higher than the [benchmark].

Reporting

Formal quarterly reporting will include an accounting statement showing portfolio income, holdings and transactions; a summary of market and portfolio activity including total return statistics; and a statement of the market outlook and investment strategy.

Review Meetings

Review meetings will be held at least annually with the staff. Results as reported by the consultant in relation to objectives; organizational changes during the preceding 12 months; and a review of market and investment strategy will be presented.