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**TITLE:** Investment Policy

**BOARD ADOPTION:** December 14, 2023

**EFFECTIVE DATE:** January 1, 2024

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## I. PURPOSE

This Investment Policy provides a framework for the management of the investment assets of the Seattle City Employees' Retirement System (SCERS). Its purpose is to guide and assist the Board of Administration (the "Board") in selecting, monitoring and managing the investments of SCERS (the "Fund") to fulfill the promise made to our members by delivering the retirement benefits they have earned. The Investment Policy will specifically address:

- Goals of the investment program;
- Investment beliefs of SCERS;
- Strategic asset allocation policy and asset classes;
- Other policies related to the management of the Fund; and
- Responsible parties.

The Investment Policy is established in accordance with the Revised Code of Washington (RCW), Section 35.39.060 (and the Seattle Municipal Code, Section 4.36.500.F) which provides:

Any city or town now or hereafter operating an employees' pension system with the approval of the board otherwise responsible for management of its respective funds may invest, reinvest, manage, contract, sell, or exchange investments acquired. Investments shall be made in accordance with investment policy duly established and published by the board. In discharging its duties under this section, the board shall act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person 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; shall diversify the investments of the employees' pension system so as to minimize the risk of large losses; and shall act in accordance with the documents and instruments governing the employees' pension system, insofar as such documents and instruments are consistent with the provisions of this title.

Consistent with the requirements of RCW 35.39.060 and SMC 4.36.500.F, this Investment Policy allows for sufficient flexibility in the management of investments for the Board to seek the best expected results for the Fund consistent with prudent levels of risk and other relevant factors.

## II. GOALS

SCERS's mission is to fulfill the promise made to our members by delivering the retirement benefits they have earned through consistent contributions made by both employer and employees and a carefully planned and executed investment program. In pursuit of this mission, the Board seeks a total return net of all investment management fees and expenses that matches or exceeds the following:

- Over a long-term period of 30 years, the actuarial rate of return that serves as the discount rate for the system's liabilities, as adopted periodically by the Board that is consistent with a prudent level of risk.
- Over a full market cycle, the Reference Passive Benchmark that reflects the Board's preference for asset volatility as exhibited in the strategic asset allocation.

- Over an intermediate-term period of 5 years, the Strategic Policy Benchmark that reflects the Board's strategic asset allocation as adopted periodically by the Board.

### III. BELIEFS

The Board maintains and acts consistent with the following investment beliefs:

1. SCERS is a long-term investor; having this perspective allows the Board to invest meaningfully in equities and other growth-sensitive assets that will experience short-term fluctuations, but are expected to deliver substantial value in the long run.
2. Since SCERS is unable to anticipate near-term capital markets performance, the Board invests the Fund consistent with the strategic asset allocation rather than attempting to tactically time the market. The strategic asset allocation represents a well-diversified and fully invested portfolio that allocates across multiple asset classes, investment styles, investment strategies, geographic regions, and Managers.
3. Among the wide variety of factors affecting investment returns, the Fund's total return is affected more significantly by its strategic asset allocation than by manager selection or other asset class implementation decisions, which play less significant roles.
4. Investment actions are considered, and performance is evaluated net of fees and expenses. The Board recognizes that these costs have a direct impact on performance, so they must be carefully considered and closely monitored throughout all of the Fund's investment activities.
5. Risk of the Fund is multi-dimensional and cannot be simplified to a precise measure. These investment, operational and ESG (environmental, social & governance) risks must be clearly identified, closely examined, and appropriately managed when making investment decisions. Ongoing evaluation is necessary to identify emergent risks.
6. Passive investing is an appropriate starting point for investing in public markets. However, SCERS may deviate from passive investing where superior risk-adjusted returns are expected by capitalizing on market inefficiencies or avoiding the drawbacks of tracking a market index. Such decisions require the identification of managers with robust resources and capabilities to successfully execute their strategies.
7. Performance of the Fund, its asset classes, and Managers must be evaluated on a regular and consistent basis against the system's liabilities, investment objectives and applicable and appropriate benchmarks, including market indices and peer universes.
8. It is imperative to ensure that the interests of SCERS's service providers (for example, its Managers and Consultant) are aligned with the Fund, in order to ensure that SCERS's best interests are not compromised in any investment, administrative, or other matter.
9. The sole purpose of the Fund is to satisfy the system's liabilities, namely the retirement benefits promised to our members; therefore, SCERS's financial position and risk profile should be evaluated holistically as the relationship of assets to liabilities. These long-lived liabilities support the Fund being primarily allocated to long-lived asset classes, namely equities, real assets, and long-term fixed income.
10. The Fund benefits in terms of long-term performance from an environment that is sustainable, a society that is well-functioning and governance systems that are sound. SCERS can most effectively advance these conditions through its Environmental, Social and Governance positive action strategies.

#### IV. ASSET ALLOCATION

The Board adopts and implements a strategic asset allocation that is predicated on a number of factors, including, but not limited to:

- Historical and expected long-term capital market assumptions to assess the volatility, return and correlation behavior of asset classes;
- A projection of actuarial assets and liabilities to determine the current and projected funding status;
- A projection of future benefit payments and contributions to gauge the Fund's required liquidity;
- An assessment of the liabilities to understand their relationship to the Fund and the expected variability of funding status; and
- An assessment of potential economic scenarios, including inflation and interest rate levels, and policy scenarios, including climate change, to evaluate the expected impact on the Fund's performance.

The strategic asset allocation will be determined through appropriate studies undertaken by the Investment Consultant ("Consultant") retained by the Board. The Board, with the aid of the Consultant and Staff, will determine the asset classes, assumptions and criteria to be incorporated in the asset-liability study. The asset-liability study will be performed no less frequently than every five years. Appropriate adjustments to the existing portfolio will then be made in a timely and appropriate manner.

On a periodic basis, Staff, with assistance from the Consultant, will analyze the portfolio structure of each asset class. This analysis shall include: 1) appropriateness of asset class and manager benchmarks, 2) alignment structure of individual portfolios with asset class benchmarks, 3) evaluation of whether the asset class is structured in such a manner that is consistent with SCERS's objectives, and 4) overall risk profile of the asset class.

The Fund shall be diversified according to the specified target percentages to deliver upon SCERS's mission and minimize the risk of large losses pursuant to RCW 35.39.060:

##### Strategic Asset Allocation

Major Asset Class	Asset Class	Target
Equity	Public Equity	46%
	Private Equity	11%
Fixed Income	Core Fixed Income	14%
	Long-Term Fixed Income	5%
	Credit Fixed Income	7%
Real Assets	Real Estate	12%
	Infrastructure	5%

The Board believes that this represents one of many prudent and permissible asset allocation strategies to achieve diversified investment returns and anticipates changes to this allocation as circumstances warrant. In addition, periods of transition may be necessary to establish and maintain the target level of investment in each asset class, particularly with respect to less liquid private market asset classes.

The Board will utilize the following asset classes as it seeks to meet SCERS's investment goals:

## A. Equity

Equity includes investments that represent ownership stakes in companies. Equity is generally expected to perform well in periods of accelerating economic growth and poorly in periods of declining economic growth. The Board expects that over the long run, equities will generate the highest total return of any asset class but may be subject to substantial volatility over shorter periods. Asset classes within equities include:

- **Public Equity:** Public equity represents shares in companies that are listed on public market exchanges. The Board seeks to diversify SCERS's public equity investments by geography, size, sector, style and company with a composition that approximates the global equity market. In so doing, SCERS will own shares of companies based in the United States, other developed market countries and emerging market countries.
- **Private Equity:** Private equity generally represents investments in privately owned companies that are not listed on public market exchanges. Private equity investments are significantly less liquid than those of public equity and are typically accessed through partnerships that are managed by external general partners. The Board seeks to diversify SCERS's private equity investments by geography, sector and general partner. Sectors may include venture capital, growth equity and buyout as well as certain natural resource-oriented sectors with comparable return and risk.

## B. Fixed Income

Fixed income includes investments in debt where the borrower may be governments, companies or other parties. The Board expects that over the long run, fixed income will provide an appreciably lower return than equities but with greater stability or alignment with the system's liabilities and with less sensitivity to changes in economic growth. Asset classes within fixed income include:

- **Core Fixed Income:** Core fixed income represents debt investments of high credit quality. The Board seeks to diversify SCERS's core fixed income investments by maturity and sector with a composition that approximates the U.S. dollar denominated investment grade debt market. Sectors may include U.S. treasuries, U.S. agencies, investment grade corporate bonds, mortgage-backed securities and other securitized assets.
- **Long-Term Fixed Income:** Long-term fixed income represents debt instruments with time remaining to maturity that is primarily greater than ten years. The Board expects the majority of SCERS's long-term fixed income allocation to be in debt issued by the U.S. Treasury, which may include treasury notes, bonds, and inflation-protected securities. The Board seeks to structure the long-term fixed income allocation to be generally aligned with the term and inflation sensitivity of SCERS's liabilities.
- **Credit Fixed Income:** Credit fixed income represents debt investments that typically have lower credit quality and a higher associated risk of default. As compensation for this risk, credit fixed income is expected to offer a higher yield. The Board seeks to diversify SCERS's fixed income credit investments by debt issuer but expects some level of sector concentration due to the more granular nature of the asset class. Sectors may include high yield bonds, bank loans, private debt, emerging markets debt, securitized assets, convertible bonds, asset-based lending, mezzanine debt and distressed debt.

## C. Real Assets

Real assets include investments that are tangible and produce inputs into the economy. Real assets are expected to provide cash flow and some protection against unexpected inflation with a moderate sensitivity to changes in economic growth. The Board expects that over the long run, real assets will provide a total return and risk profile between fixed income and equity investments. Real assets are typically less liquid than those of public equity or fixed income. Asset classes within real assets include:

- **Real Estate:** Real estate represents investments in sectors such as retail, office, multi-family and industrial. The Board expects the majority of SCERS’s real estate allocation to be in privately owned equity investments in core real estate, although investments in non-core, debt or public securities are permissible. The Board seeks to diversify SCERS’s real estate investments by sector and region.
- **Infrastructure:** Infrastructure represents investments in tangible assets in sectors such as regulated utilities, transportation, power generation and social infrastructure. Certain natural resource-oriented sectors with comparable return and risk are also permitted. The Board expects the majority of SCERS’s infrastructure allocation to be in privately owned equity investments, although public securities or debt investments are permissible. The Board expects to diversify SCERS’s infrastructure investments by sector and region.

## V. GENERAL POLICIES

### A. Laws and Regulations

In pursuing its investment program, SCERS shall at all times comply with applicable local, state and federal laws and regulations.

### B. Rebalancing Guidelines

As market values change over time, the actual asset mix of the Fund may diverge from the target allocations established by the Board in the strategic asset allocation. If the Fund is allowed to deviate too far from the target allocations, there is a risk that the Fund will fail to meet the management objectives set by the Board. On the other hand, too frequent of portfolio rebalancing to the asset allocation targets may result in material transaction costs. Cognizant of these risks, Staff will rebalance the Fund in accordance with the following guidelines and procedures as established by the Board:

- With respect to each asset class for which the Board has set a target allocation, the Board, in consultation with Staff and Consultant, will establish rebalancing range limitations. These rebalancing ranges are subject to adjustment in response to changed circumstances and recommendations by Staff and the Consultant.

**Strategic Asset Allocation Rebalancing Ranges**

Major Asset Class	Asset Class	Min	Target	Max
Equity	Public Equity	39%	46%	53%
	Private Equity	6%	11%	16%
Fixed Income	Core Fixed Income	10%	14%	18%
	Long-Term Fixed Income	2%	5%	8%
	Credit Fixed Income	4%	7%	10%
Real Assets	Real Estate	8%	12%	16%
	Infrastructure	2%	5%	8%

- Staff will monitor the Fund’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 to manage portfolio risk relative to policy. In the rare event that actual allocations for a publicly traded asset class fall outside the predetermined ranges, Staff will alert the Board and develop a plan for rebalancing back within the target range, including the timeframe for accomplishing the rebalancing.

- The Board may engage a Manager to manage an overlay program where futures and other derivative instruments are used to efficiently rebalance the portfolio and invest available cash.
- Whenever an allocation to a particular asset class is above or below target, but within the target range, Staff or the Manager of the overlay program may rebalance partially or fully back to the target where there is an opportunity to do so effectively.
- Given the difficulty in managing the allocation to less liquid private market asset classes (i.e. private equity, real estate, infrastructure), automatic rebalancing will not be required if the actual allocation for such assets falls outside the predetermined range. Rather, Staff, in consultation with the Consultant and/or Managers, will develop a plan to bring the allocation as close as practicable to the policy target within a prudent timeframe. In the interim where private equity is above or below target, public equity will act as a counterweight and be correspondingly held below or above target, respectively, by a like amount. In the interim where the aggregate real assets allocation is above or below the aggregate target, an equal combination of public equity and core fixed income will act as a counterweight and be correspondingly held below or above target, respectively, by a like amount.

### C. Performance Benchmarks

The performance goal for each asset class in which SCERS is invested shall be to achieve a total return net of fees and expenses which equals or exceeds the asset class policy indices listed below over a 5 year timeframe.

#### Asset Class Policy Indices

Major Asset Class	Asset Class	Index
Equity	Public Equity	MSCI All Country World Investable Market Index
	Private Equity	Custom Private Equity Index*
Fixed Income	Core Fixed Income	Bloomberg U.S. Aggregate Bond Index
	Long-Term Fixed Income	Custom Long-Term Fixed Income Index**
	Credit Fixed Income	Custom Credit Index***
Real Assets	Real Estate	NCREIF ODCE Index
	Infrastructure	Custom Infrastructure Index****

\*Custom Private Equity Index is defined as the Burgiss Private Equity Eligible Universe pooled time-weighted return that contains funds with vintage years of 2014 to present

\*\*Custom Long-Term Fixed Income Index is defined as 60% Bloomberg U.S. Treasury Long Index and 40% Bloomberg U.S. TIPS 10+ Year Index

\*\*\*Custom Credit Index is defined as 40% Merrill Lynch High Yield Master II Index, 40% Credit Suisse Leveraged Loan Index, and 20% JPM EMBI Global Diversified Index

\*\*\*\*Custom Infrastructure Index is defined as the Burgiss Infrastructure Universe pooled time-weighted return that contains funds with vintage years of 2016 to present

The Strategic Policy Benchmark is based on a weighted average of the asset class policy indices. While it is the Board's desire to reach the target allocation in an expedited and prudent manner, it is anticipated that it will take time to do so for the private market asset classes. The Strategic Policy Benchmark reflects this by increasing the percentage attributed to the asset class policy indices associated with the private markets asset classes (and decreasing those for the corresponding public markets) based on the anticipated pacing plan.

### Strategic Policy Benchmark Composition

Asset Class	2024	2025	2026	2027
Public Equity	47%	46.5%	46.5%	46%
Private Equity	11%	11%	11%	11%
Core Fixed Income	15%	14.5%	14.5%	14%
Long-Term Fixed Income	5%	5%	5%	5%
Credit Fixed Income	7%	7%	7%	7%
Real Estate	12%	12%	12%	12%
Infrastructure	3%	4%	4%	5%

The Reference Passive Benchmark is based on a weighted average of the asset class policy indices for public equity and core fixed income. The benchmark weights are determined when adopting the Fund's strategic asset allocation. The benchmark weights are set such that the expected asset volatility of the Reference Passive Benchmark is comparable to that of the Fund's strategic asset allocation.

### Reference Passive Benchmark Composition

Asset Class	Weight
Public Equity	71%
Core Fixed Income	29%

#### D. Watch Status

The Board may place a Manager on watch status if at least one of two events occurs: (i) investment performance does not meet the objectives outlined in this Investment Policy or the individual Manager contract; or (ii) Staff and/or Consultant, as part of their ongoing monitoring process, identify a material concern that warrants closer and continued scrutiny. If the Board places a Manager on watch status, Staff will issue a formal notification to the Manager. Typically, once a Manager is placed on watch status, it should be able to exhibit improvement within a timeframe of twelve to eighteen months, or such date as specified by Staff or the Consultant.

The Board, in consultation with Staff and the Consultant, may release a Manager from watch status if they exhibit improvement with respect to the events that caused it to be placed on watch status. A Manager is not required to be on watch status for the Board to proceed with termination. The Board may terminate any Manager or reduce its allocation of the Fund's assets if the Board, in its sole discretion, determines that doing so is prudent and appropriate.

#### E. Manager Concentration

No single Manager shall manage, in aggregate across all mandates, more than 30% of the Fund. When excluding those mandates that are passively managed, no single Manager shall manage more than 15% of the Fund. For purposes of mandates where investment decision-making is delegated to a sub-advisor, this concentration limit will consider the sub-advisor as the Manager.

#### F. Securities Lending

An agreement may be made with SCERS's Custodian or other third-party custodian retained by the Board to loan securities on behalf of SCERS. Securities lending is intended to generate incremental income within a

high-quality investment program that safeguards the return of principal, maintains adequate daily liquidity and ensures diversification. 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.

#### **G. Derivatives**

Manager use of derivative instruments is permitted if specifically allowed under the Manager contract and only for purposes of substitution or risk control. Derivative use for the purposes of speculation or arbitrage is not permitted. For these purposes, derivatives shall be defined as securities whose return or market value is derived from another security or market index.

#### **H. Proxy Voting**

The Board recognizes that proxy voting rights are assets of the Fund that allow SCERS to participate in the governance of corporations in which it is directly invested. In managing this asset, the Board instructs its Managers to vote the proxies of its directly invested shares consistent with the Institutional Shareholder Services' (ISS) Public Funds Proxy Voting Policy or based on Staff direction in specific situations to further SCERS's ESG positive action strategies.

Staff will monitor the voting activities of the Managers on at least an annual basis.

#### **I. Environmental, Social and Governance**

See separate Environmental, Social, and Governance Policy.

#### **J. Conflicts of Interest**

See separate Conflicts of Interest Policy.

### **VI. DUTIES AND RESPONSIBILITIES**

#### **A. Duties of the Board**

Although it is not the intent of the Board to be involved in the day-to-day investment activities, it is responsible for SCERS and its investments. The Board may establish an Investment Committee to assist the Board. The Board will adhere to the following procedures in the management of the Fund:

- In consultation with Staff, the Consultant, and legal counsel, develop, approve, and periodically review policies and practices to govern the execution of the investment program. Staff will be responsible for implementation and administration of these decisions.
- Establish and periodically review the strategic asset allocation for the Fund. Staff and the Consultant shall assist the Board in these decisions.
- Select, manage, review, and terminate Managers, the Consultant, and the Custodian. Staff shall assist the Board in these decisions; the Consultant shall assist in selection, management, review, and termination of Managers.
- Review the investment portfolio on at least a quarterly basis, including an assessment of performance as compared to this Investment Policy and peer funds.

#### **B. Duties of the Staff**

The Staff provides analysis and recommendations to the Board on investments and related matters; oversees



and directs the implementation of Board policies and manages the Fund on a day-to-day basis. Further, Staff shall:

- Conduct Manager search processes, as approved by the Board, with assistance from the Consultant as needed.
- Evaluate and manage the relationships with Managers, the Consultant, and the Custodian to ensure that they are serving SCERS well.
- Monitor and evaluate Managers for such matters as adherence to SCERS's policies and guidelines.
- Manage portfolio restructuring, portfolio rebalancing, and investment reallocations or Manager terminations, with the assistance of the Consultant and Managers, as needed.
- Initiate and perform any special research requested or required by the Board.
- Advise and keep the Board apprised of other investment matters.

### **C. Duties of the Consultant**

The Consultant shall be responsible for the following:

- Make recommendations to the Board, in collaboration with Staff, regarding investment policies and procedures, and strategic and tactical asset allocation matters.
- Acknowledge and agree to accept fiduciary responsibility in providing services to SCERS.
- Assist the Board and Staff in the selection of qualified Managers, and assist in the review of existing Managers, including monitoring changes in personnel, ownership and their investment processes.
- Provide topical research and education on investment subjects as required or requested by the Board or Staff.
- Prepare a performance report at least quarterly assessing the performance of the Fund, its asset classes, and its Managers in relation to this Investment Policy, relevant performance indices, and peer funds.

### **D. Duties of the Managers**

Each Manager is responsible for all aspects of portfolio management as set forth in its contract with SCERS and shall be responsible for the following:

- Manage SCERS's assets under its care, custody and/or control in accordance with the objectives and guidelines in this Investment Policy and the Manager's specific contract.
- Acknowledge and agree to accept fiduciary responsibility in safeguarding and managing SCERS's assets under its control, and in complying with this Investment Policy.
- Adhere to the investment management style concepts and principles for which they were retained.
- Obtain best execution for all transactions by considering such factors as cost, speed, efficiency and confidentiality, and, where appropriate, facilitate soft dollar credits (i.e. payment of services through commissions) and the recapture of commissions for SCERS's benefit.
- Monitor and evaluate performance relative to the established objectives that are defined by the Board

based on the Manager's asset class and style and as specified in the Manager's contract.

- Notify Staff in the event of any significant change in investment style, firm ownership, senior personnel, or the mandate's portfolio manager or relationship manager.
- Maintain frequent and open communication with Staff on all significant matters pertaining to the investment program, including, but not limited to, performance, portfolio structure and organizational matters.
- Meet with the Board, Staff, and/or Consultant on an as-needed basis.

#### **E. Duties of the Custodian**

The Custodian shall be responsible to the Board for the following and such other responsibilities set out in its contract with SCERS:

- Provide complete global custody and depository services for the designated accounts.
- Collect all income and realized principal and accurately report it on the periodic statements.
- Provide in a timely and effective manner monthly and fiscal year-end accounting statements for the portfolio, including all transactions.
- Provide assistance to SCERS in completing such activities as the annual audit, transaction verification and unique issues as required by the Board.
- Manage a securities-lending program to enhance income if directed by the Board and report on the program to Staff on a periodic basis.

#### **F. Duties of the Investment Advisory Committee**

The Investment Advisory Committee shall be responsible for the duties outlined in RCW 35.39.090:

- Make recommendations as to general investment policies, practices, and procedures to the Board.
- Review the investment transactions of the Board annually.
- Prepare a written report of its activities during each fiscal year.

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