

MUNICIPAL EMPLOYEES BENEFIT TRUST
INVESTMENT POLICY STATEMENT

Restated – January 1, 2008
Amended August 12, 2009

I. Introduction

The assets of the Municipal Employees' Benefit Trust (MEBT) will be managed in accordance with this Investment Policy Statement (IPS), unless changes are subsequently approved by the MEBT Trust Committee.

Purpose of IPS:

This IPS document provides a framework for the investment management of MEBT. It formally articulates MEBT's Investment Objectives and Guidelines, as well as the responsibilities of the various parties as they pertain to MEBT. This policy statement is designed to:

- provide for prudent selection and monitoring of the MEBT investment vehicles (such as separately managed accounts, mutual funds, commingled trusts, collective funds, stable value funds) interchangeably referred to as Investment Managers;
- 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;
- ensure that MEBT is managed in the best interest of its participants and beneficiaries;
- achieve MEBT's investment goals including producing a real (inflation-adjusted) return of 5% while concurrently controlling volatility of MEBT's total portfolio;
- minimize MEBT's reasonable expenses of investing;
- provide a framework to guide decisions, communicate with Investment Managers, and direct plan administration;
- invest within the limitations established by Federal and Washington

State laws and rules.

Broad Investment Principles

MEBT is managed with a long-term investment horizon, and will approach asset allocation decisions on a strategic, long-term basis. Studies show that adhering to a strategic long-term asset allocation plan in a consistent and disciplined manner will be the major determinant of MEBT's investment performance.

MEBT will be managed on a total return basis. While MEBT recognizes the importance of the preservation of capital, it also acknowledges the theory of Capital Market Pricing – i.e., varying degrees of investment risk should be rewarded with compensating returns. Consequently, MEBT will invest in a well-diversified portfolio.

Performance Goals

The following investment goals are in keeping with the fiduciary requirements set forth in federal and state law. These are long term goals and consider other factors set out in this IPS.

1. **Attempt to provide an annualized real (inflation-adjusted) rate of return of 5% over each market cycle, estimated to be three to five years.**
2. **Diversify in an attempt to control the volatility of the total portfolio of MEBT and to avoid catastrophic loss of principal.** MEBT may be comprised of fixed income, equity and convertible securities that may be actively or passively managed.
3. **Attempt to meet or exceed the top 35th percentile of peers based on a composite return of other similarly managed funds as measured by MEBT's Investment Consultant.** This composite ranking will be measured over a moving three and five year review.

4. **Attempt to meet or exceed the performance of the composite MEBT benchmark:** 45% Russell 3000 Index; 15% MSCI EAFE Index; and 40% Lehman Aggregate Bond Index. This composite ranking will be measured over a moving three and five year review. The MEBT benchmarks for the Investment Managers are indicated in each specific Manager’s Investment Manager Guideline (IMG).

II. Asset Allocation

The following standards are designed to provide the highest probability of meeting or exceeding MEBT’s return goals, at the lowest possible risk. This allocation is based on historical risk/return relationships.

The broad asset allocation for MEBT will be as follows:

Domestic Equities	45%
International Equities	15%
Fixed Income	40%

Domestic Equity diversification will roughly be modeled after the Russell 3000 Stock Index as it pertains to market capitalization and style.

International Equity diversification will include exposure to various market capitalizations, styles and regions of the world.

Fixed Income diversification may include core bond holdings as well as straight high yield debt, foreign debt and convertible securities.

	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Domestic Equities	40.5%	45.0%	49.5%
International Equities	13.5%	15.0%	16.5%
Fixed Income	36.0%	40.0%	44.0%

The targets do not include the Short Term Investment Fund used for liquidity purposes.

III. General Investment Information

Types of Investments

Pooled funds, including mutual funds, commingled trusts, collective funds, stable value funds as well as separately managed accounts are permissible investment vehicles for MEBT.

Prohibited Transactions

In general, the following transactions are prohibited by MEBT Investment Managers unless specifically addressed in the Investment Manager Guidelines:

- Short sales
- Selling on margin
- Options
- Transactions that involve a broker acting as a “principal” where such broker is affiliated with the investment manager or investment consultant
- Derivatives
- Futures
- Forwards
- Swaps
- Prohibited transactions between a fiduciary and a party in interest.

Commission dollars

Commission dollars are the assets of the Trust, and should generally be used for the exclusive benefit of the Trust.

IV. Procedures for Selection and Monitoring Investment Managers

One of the most important tasks of fiduciaries is the selection and monitoring of the Investment Managers or investment funds and subsequent performance. The following outlines the process for such activities.

Criteria for Investment Manager Selection:

Specific criteria will be established for each Investment Manager search undertaken by MEBT and will be tailored to MEBT's needs.

Required Criteria

In general, eligible Investment Managers will possess attributes including, but not limited to, the following:

- Be **registered with the SEC** and demonstrate **experience** in managing money for institutional clients in the **asset class/product category** specified by MEBT.
- Display a **record of stability** in retaining and attracting qualified investment professionals, as well as a record of managing asset growth effectively, both in gaining and retaining clients.
- Demonstrate a **sufficient asset base** to accommodate MEBT's portfolio. In general, Investment Managers should have at least \$250 million of discretionary institutional assets under management, and MEBT's portfolio should make up no more than 10% of the Investment Manager's total asset base. Exceptions to these criteria may be made under certain circumstances.
- Demonstrate **adherence to the investment style** sought by MEBT, and adherence to the Investment Manager's investment discipline.
- **Fees are competitive** with standards for the product category.
- Willing/able to **comply with their Investment Manager Guideline**.
- Willing/able to **comply with certain preferred minimum contracting provisions**.

Preferred Criteria

- **Outperform the assigned benchmark** index in the most recent 3–year and 5–year trailing time periods
- **Rank in the top 30th percentile of a peer group** of similarly managed portfolios in the most recent 3–year and 5–year trailing time periods.
- **Provide risk-adjusted returns in the top 30th percentile of a peer group** of similarly managed portfolios in the most recent 3–year and 5–year trailing time periods.

In addition to the criteria listed above, the Investment Consultant will provide in–depth due diligence on any candidate presented for consideration to MEBT.

Criteria for Investment Manager/Fund Monitoring

The IAC and Investment Consultant will monitor the performance of the Investment Managers each quarter and will clearly note any variations from monitoring criteria listed below.

MEBT reserves the right to terminate an Investment Manager at any time, for any reason. Grounds for terminating an Investment Manager may include, but are not limited to, the following:

- **Failure to comply with the IMG’s** agreed upon for management of MEBT.
- Investing **inconsistent with the investment management style.**
- **Failure to achieve performance objectives** specified in the manager's guidelines over a reasonable time period.
- Significant **deviation from stated investment philosophy/process.**
- **Loss of key personnel.**

- **Evidence of illegal or unethical behavior.**
- **Lack of willingness to cooperate with reasonable requests by MEBT** for information, meetings, or other material related to MEBT.
- **Unreasonable or uncompetitive fees.**

The presence of any one of these factors will be carefully reviewed by the Investment Consultant and the IAC, but will not necessarily result in an automatic recommendation to terminate.

The IAC may place an Investment Manager on the “watch list” for failure to materially perform any specific goals and objectives set by MEBT. The Investment Consultant will monitor ongoing performance.

Removal from the “watch list” will be considered if and when these goals and objectives have been achieved. The IAC will report any change of status of an Investment Manager to the MEBT Trust Committee on a quarterly basis.

V. Administration/Operations

Rebalancing Methodology.

Given the volatility of the capital markets, strategic adjustments in various asset classes may be required to rebalance asset allocation back to its target policy. Such adjustments should be executed so as to minimize excessive turnover and transaction costs. See Appendix (B) for the Rebalancing Policy.

Liquidity

See Appendix (C) for the Liquidity Policy regarding the potential liquidity needs of MEBT. The MEBT Trust Committee will maintain sufficient liquidity in cash equivalent investments to meet expected cash needs. The Cities’ and the participants’ contributions are typically sufficient to meet anticipated benefits and will be reviewed periodically.

VI. Responsible Parties, Policies, and Procedures

Duties of the MEBT Trust Committee

The MEBT Trust Committee approves the investment policies for MEBT. The MEBT Trust Committee will rely on the comments and recommendations of the Investment Consultant and the IAC in making informed, prudent decisions with respect to the following responsibilities. Although the MEBT Committee does not intend to be involved in day-to-day investment decisions, it will be responsible for:

- 1) **Establishing** financial objectives and setting **investment policy**, including selecting appropriate **asset classes** and setting **strategic allocations** to those asset classes.
- 2) **Determining** the Investment Manager structure of MEBT.
- 3) **Approving** the **selection/termination of Investment Managers**.
- 4) **Monitoring investment report** to review objectives.
- 5) **Communicating** regularly with the Investment Consultant and the IAC. The IAC Chair schedules quarterly IAC meetings, and the MEBT Trust Committee Chair may call an IAC meeting if significant concerns arise about an Investment Manager's strategy, performance, etc.
- 6) **Acting** to address issues affecting **MEBT**, (e.g., performance shortfalls, failure of Managers to adhere to guidelines, personnel turnover at Investment Management firms.)

The following actions are the responsibility of the MEBT Trust Committee but will generally involve the advice of the IAC and/or Investment Consultant as appropriate.

- 1) **Selection of a qualified master custodian** and termination of such custodian when deemed necessary.
- 2) **Selection of a qualified investment consultant** and termination of such consultant when deemed necessary.
- 3) **Setting policies on a system of internal controls** to safeguard MEBT Investments.

- 4) As stated below under "Duties of the Investment Managers", proxies are intended to be voted by investment managers who oversee a separately managed account. However, if proxies arise for investments other than separately managed accounts, they may be cast by the Committee or those parties designated by the Committee, with the best interests of the Plan in mind, and with due consideration given to impacts on Plan participants. The Committee intends to pursue voting of proxies generated by holdings in the Plan only where the value of voting those proxies would have a direct, significant impact on Plan participants. Alternatively, the Committee may seek professional assistance in the voting of proxies generated by holdings in the Plan.

Duties of the Investment Advisory Committee (IAC)

The MEBT Trust Committee has assigned oversight responsibilities regarding the investment funds of MEBT to the Investment Advisory Committee. The responsibilities of the IAC will be:

- 1) Making **recommendations** to the MEBT Trust Committee concerning financial objectives and **investment policy**, including the selection of appropriate **asset classes** and setting **strategic allocations** to those asset classes.
- 2) Recommending the **Investment Manager structure** of MEBT.
- 3) Recommending the **selection/termination of qualified Investment Managers**.
- 4) **Monitoring investment performance** at least quarterly against the objectives of MEBT and each Investment Manager. Report to the MEBT Trust Committee on a timely basis.
- 5) **Communicating** regularly with those responsible for investment results, including periodic reviews with each Investment Manager and an annual report to the MEBT Trust Committee. The IAC Chair schedules quarterly IAC meetings, and may call a special IAC meeting

if significant concerns arise about an Investment Manager's strategy, performance, etc. Such communication will be coordinated with and facilitated by the Investment Consultant.

- 6) **Recommending actions to address any issues** affecting MEBT, e.g. performance shortfalls, failure of managers to adhere to guidelines, personnel turnover at investment management firms retained by MEBT.

Duties of the MEBT Investment Consultant

MEBT utilizes the services of an independent Investment Consultant acting as a fiduciary to provide MEBT/IAC with the following services including, but not limited to:

- 1) **Recommending** financial objectives and **investment policy**, including the selection of appropriate asset classes and setting **strategic allocations** to those asset classes..
- 2) **Recommending the Investment Manager structure** of MEBT.
- 3) **Assisting MEBT in the oversight of existing managers**, including monitoring changes in personnel and investment process. Recommending the selection/termination of Investment Managers and negotiating fees. Assisting with negotiation of contract provisions.
- 4) **Monitoring investment performance** at least quarterly against the objectives of MEBT and each Investment Manager including a review of asset allocation within MEBT. Prepare a quarterly performance report on MEBT's Managers/funds, including a review of asset allocation within MEBT.
- 5) **Communicating** regularly with those responsible for investment results, including periodic reviews with each Investment Manager. The IAC Chair schedules quarterly IAC meetings, and the Investment Consultant may call a special IAC meeting if significant concerns arise about an Investment Manager's strategy, performance, etc. Coordinate and facilitate communication among the Investment Managers, the IAC and the MEBT Trust Committee.
- 6) **Recommending actions** to address issues affecting MEBT, (e.g., performance shortfalls, failure of managers to adhere to guidelines, personnel turnover at investment management firms retained by MEBT) or independent research on investment topics.

Duties of the Investment Managers

MEBT will be managed on a discretionary basis by professional external Investment Managers who have been retained for that purpose by MEBT. The Managers will have the following responsibilities. In addition, Managers have specific responsibilities included in their respective Investment Manager Guideline (IMG) Appendix to this IPS.

- 1) **Adhere to the investment management style concepts/principles** for which they were retained, including, but not limited to: developing portfolio strategy; performing research; developing buy, hold, and sell strategies; purchasing and selling securities;
- 2) **Function under a formal contract** that delineates its responsibilities and appropriate performance expectations.
- 3) **Vote proxies** in the best interest of MEBT participants and beneficiaries. **Report non-routine issues annually** to the IAC.
- 4) **Operate in accordance with a specific Investment Manager Guideline (IMG)** as acknowledged, in writing and provided as an Appendix to this Investment Policy Statement.
- 5) Have discretion/**authority for determining investment strategy**, security selection, and timing subject to the IMG.
- 6) Execute all transactions for MEBT on a “**best execution**” basis.
- 7) Coordinate with Investment Consultant to **reconcile accounting, transaction, and asset summary data** with custodian valuations and communicate and resolve any significant discrepancies with the custodian and consultant on a quarterly basis.
- 8) **Communicate regularly** with the Investment Consultant and the IAC on matters such as: major changes in the Investment Manager's investment outlook, investment strategy and portfolio structure; significant changes in ownership, organizational structure, financial condition, or senior personnel; changes in the Portfolio Manager assigned to MEBT; issues which the Manager believes are of significant interest or material importance.

Duties of the Master Custodian / Sub-Custodian

With the possible exception of assets invested in mutual funds or other commingled vehicles, the assets of MEBT will be held in a custody account with a master custody bank or network of sub-custodians with electronic connectivity to the master custodian. Please refer to Appendix A.

VII. Standard of Care

This policy hereby adopts the investment provisions established in RCW 35.39.060 as the standards for each investment manager. It is as follows: The manager shall act 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; 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 goals of the IAC / MEBT Trust Committee.

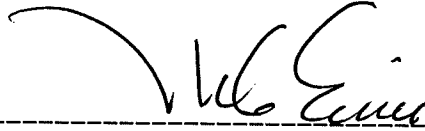
VIII. Process for Changing this IPS

Any changes to this policy statement will be recommended by the Investment Advisory Committee (IAC)/Investment Consultant and subsequently approved by the MEBT Trust Committee. Such changes will be made in writing. These policies will be reviewed annually, or more often as conditions warrant with changes made as appropriate.

The MEBT Trust Committee and the IAC will have discretion to interpret this IPS and apply its judgment, including allowing variances from its specific requirements as it determines are in the best interest of the Trust and its participants.

Restated: IAC: August 5, 2009

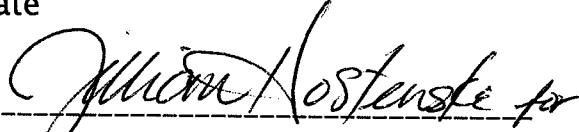
MEBT: August 12, 2009



MEBT Secretary

8-19-09

Date

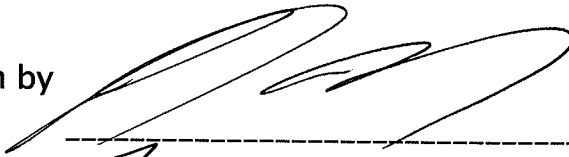


MEBT Chair

8-19-09

Date

Approved as to Form by



Thurson, Burnett & McDowell, P.S.

8/13/09

Date

<u>Appendix A</u>	-	Master Custodian and Sub-Custodian
<u>Appendix B</u>	-	Rebalancing Policy
<u>Appendix C</u>	-	Liquidity Direction
<u>Appendix D.1</u>	-	Core Fixed Income - PIMCO Liquidity Portfolio
<u>Appendix D.2</u>	-	Core Fixed Income - PIMCO Total Return
<u>Appendix E</u>	-	Convertible/High Yield Debt - Calamos
<u>Appendix F</u>	-	S&P 500 Index - State Street Global Advisors
<u>Appendix G</u>	-	Large Cap Growth - Westfield Capital Management
<u>Appendix H</u>	-	Large Cap Value - Eaton Vance
<u>Appendix I</u>	-	Small Cap Value - Wells Capital Management
<u>Appendix J</u>	-	Small Cap Growth - Baron Capital Management
<u>Appendix K</u>	-	International Growth - William Blair
<u>Appendix L</u>	-	International Value - Brandes Investment Partners