1.0 GENERAL

1.1 The Board of Administration ("Board") of the Spokane Employees' Retirement System (SERS) hereby establishes its Statement of Investment Policy for the investment of the trust funds ("the Trust") in accordance with Spokane Municipal Code and Revised Code of Washington as applicable.

This statement defines the investment policies for the management and oversight of the Trust for SERS. As such, it sets forth the goals and objectives for the Trust, the strategies for achieving those goals and objectives, and the delineation of duties for those responsible for monitoring the Trust's investments.

1.2 TABLE OF CONTENTS

- 1.0 GENERAL
- 2.0 DEPARTMENTS/DIVISIONS AFFECTED
- 3.0 REFERENCES
- 4.0 DEFINITIONS
- 5.0 POLICY
- 6.0 PROCEDURE
- 7.0 RESPONSIBILITIES
- 8.0 APPENDICES

2.0 DEPARTMENTS/DIVISIONS AFFECTED

This policy shall apply to the Spokane Employee's Retirement System.

3.0 REFERENCES

SMC chapter 3.05
4.0 DEFINITIONS
4.1 None

5.0 POLICY
5.1 Statutory Requirements and Duties
5.1.1 The investment of the Trust will be in accordance with all applicable laws of the City of Spokane and the State of Washington.

5.1.2 Sole Interest of Beneficiaries

Investments will be made in the best interest of the participants and beneficiaries and for the exclusive purpose of providing benefits to the participants and their beneficiaries and defraying reasonable expenses of administration.

5.1.3 Fiduciary Duties

Investments will be made with the judgment and care under the prevailing circumstances, and fiduciaries will act as a prudent person would be expected to act. Fiduciaries will act with discretion and intelligence to seek reasonable income, preserve capital and in general, avoid speculative investments. Investments will be diversified to reduce the risk of loss and to maximize the rate of return.

5.1.4 Socially Responsible Investing

The Board is under a duty to the beneficiaries in administering the Trust, and will not be guided by the interest of third parties. The Board’s primary concern is to achieve the best possible rate of return with prudent risk. The Board will not make investments solely for social purposes but may consider social purposes if such consideration furthers the goals of prudent investment.

5.2 Objectives

5.2.1 Trust Objectives

Trust assets are invested to provide the necessary funds to meet the obligations of SERS, while incurring a prudent level of risk consistent with paragraph II B. above.
5.2.2 Investment Objectives

The Trust’s investment objectives are as follows:

• To outperform the Policy or Indexed Equivalent Benchmark, on a risk-adjusted basis after fees.

• To earn the long-term rate of return required for the payment of benefits, based on actuarial work performed by the Trust’s actuary (see Appendix A).

• Active investment managers will be expected to exceed, on a risk-adjusted basis after fees, the return of their indexed equivalent benchmark.

• The performance of passive managers will be monitored and will be in line with the appropriate benchmark index.

• To achieve the objectives listed above, manager portfolios should be fully invested with minimal cash.

5.2.3 Overall Performance Considerations

In determining the overall performance characteristics of the Trust’s portfolio, the Board will consider:

• The need for consistency of portfolio performance to the greatest extent possible, given the portfolio’s return objectives and liquidity requirements.

• Minimizing downside volatility in the portfolio by incorporating asset classes that have low correlations to core segments such as domestic equity.

• Providing adequate liquidity for making benefit payments.

• A strategic perspective as to whether the Trust’s asset allocation strategy is positioned to produce the performance results needed to fund the benefit commitments of SERS over the long-term.

6.0 PROCEDURE

6.1 Implementation
In general, the strategy that the Board will consider in investing and managing the trust assets includes analysis of the following: (1) general economic conditions; (2) the possible effect of inflation or deflation; (3) the role that each investment or course of action plays within the overall trust portfolio; (4) the expected total return from income and the appreciation of capital; and (5) needs for liquidity and preservation or appreciation of capital. The Board will make a reasonable effort to verify facts relevant to the investment and management of trust assets.

6.1.1 Asset Class Diversification

Risk controls are an important component of the Trust’s investment strategy. Accordingly, the Board will seek to diversify Trust assets among various asset classes, particularly those that have relatively low correlations in their return patterns, and as a result have the potential to reduce the volatility in the overall portfolio.

The Board will determine which asset classes will be permissible in the Trust’s investment structure. Asset classes will be reviewed annually, revised as necessary, and are set forth in Appendix B.

6.1.2 Asset Allocation

In making strategic allocation decisions, the Board must consider the risk / return tradeoffs, and importantly, which allocation strategies provide the best opportunity for the Trust’s portfolio to produce the returns needed to meet its long-term benefit payment obligations. Accordingly, the Board will periodically conduct an asset allocation study.

6.1.3 Rebalancing Policy

The actual asset allocation within the portfolio relative to policy targets and ranges will be monitored on a quarterly basis. The portfolio will be re-balanced at least annually, to the allocation targets stated in Appendix B, and more frequently if market conditions warrant.

6.2 Structure and Responsibilities

6.2.1 Board’s Responsibilities

The Board is responsible for all investment activities, consonant with its duties under this Policy. In exercising this responsibility, the Board will hire investment managers and delegate investment duties to those managers. If the Board does not delegate
investment duties, the Board will either become familiar with such matters, or will retain persons who are familiar with such matters. The Board will monitor and review the actions of those to whom responsibilities are delegated.

6.2.2 Responsibilities of Board

- monitoring the performance of the overall portfolio in achieving the goals of SERS which includes the assessment of individual manager performance

- making strategic decisions concerning asset allocation and policies

Specifically the Board:

- sets investment policy

- reviews, on an annual basis, the Investment Policy including appendices and makes changes as necessary

- determines the asset classes to be utilized

- sets the strategic asset allocation and hires agents to assist with this process

- monitors the compliance of agents with the investment policies and strategic allocations determined by the Board.

6.2.3 Delegation of Specific Investment Activities

The Board will normally delegate investment decisions concerning specific securities or assets to outside agents. The Board will retain direct responsibility for monitoring the activities of those agents through periodic reports from its staff or consultants. The Board may choose to exercise direct investment responsibility if unusual market conditions or other circumstances so indicate.

6.2.4 Advisors to the Board

a. Actuaries

The Board will hire an actuary to provide studies that will determine the long-term obligations of SERS and establish investment return objectives and assumptions that are sufficient to meet obligations. The Board will set its long-
term return objectives after considering information provided by those studies (see Appendix A).

b. Investment Consultants

The Board may hire a qualified investment consultant to provide a variety of services. Quarterly performance reporting to the Board is a key component of those services. The reports will provide a comprehensive perspective on the total portfolio's overall performance and risk/return characteristics, and those of each managed segment. In addition to providing absolute performance analysis, the report will also provide relative comparisons using peer performance samples for the total portfolio its various segments.

The Board, at its discretion, may also request the consultant to assist with other projects related to the Retirement System's portfolio. Those would include technical projects such as:

- Asset allocation studies to assure that the portfolio's structure is strategically aligned to meet the long-term objectives of the Fund.

- Manager due diligence and keeping the Board informed of any changes in staff, ownership, etc. that might cause a material change in a managers' ability to meet performance expectations.

- Conduct manager searches as directed by the Board, to either replace a manager(s) that is not meeting the Board's performance expectations as outlined in the Policy, or a search for a manager as a result of the Board's decision to fund a new asset class.

- Proactively bringing new ideas to the Board that may assist them in their decision making, particularly in regard to enhancing the risk/return characteristics of the SERS portfolio.

- Assist the Board in periodically updating their investment policy and related documents as requested.
6.2.5 Custodians and Investment Managers

a. Custodian Responsibilities

The Board can hire custodians who will assume full responsibility for the safekeeping and accounting of all assets held on behalf of the Trust. Among other duties as may be agreed to, the custodian will be responsible for: (a) the receipt, delivery, and safekeeping of securities; (b) the transfer, exchange, or redelivery of securities; (c) the claiming, receipt, and deposit of all dividend, interest, and other corporate actions due the Trust; (d) the daily sweep of all uninvested funds into a cash management account or accounts; and, (e) making reports available to staff that include all purchases and sales of securities, all dividend declarations on securities held by the Trust, a list of securities held by the Trust, and a cash statement of all transactions for the account of the Trust.

b. Investment Managers

The Board may hire investment managers who will be fiduciaries of the Trust and who will be responsible for the investment of Trust assets in specific securities or assets within the acceptable asset classes. Investing in Collective Investment Trusts is also permitted.

1) Minimum Qualifications

Investment managers will be registered with the Securities and Exchange Commission (unless exempted from such registration requirements), and have been in the business of investment management at least three years.

2) Responsibilities and Discretion

Subject to the restrictions set out in this policy or as may be set out in individual contracts or guidelines, an investment manager shall have full discretionary power to direct the investment, exchange, and liquidation of the
assets entrusted to that manager. The manager shall place orders to buy and sell securities and, by notice to the custodian, cause the custodian to deliver and receive securities on behalf of the Trust.

3) Corporate Governance

The Board, unless otherwise stated, will delegate the voting of proxies to the investment managers.

4) Transactions and Brokerage

All securities transactions shall be executed by reputable broker / dealers or banks, and shall be on a best price and best execution basis.

6.3 Monitoring

The Trust’s investment portfolio is monitored on a regular basis by the Chief Investment Officer working in conjunction with the Independent Consultant and other professionals as needed.

6.3.1 Total Portfolio Benchmark

The actual performance of the Trust will be compared against a passively managed, indexed equivalent portfolio. The weightings of each segment of the passive portfolio will mirror those of the actual Trust portfolio. A comparison of the two facilitates an assessment of the value-added by the Trust's active managers.

6.3.2 Reporting

Asset class and investment manager returns are reported to the Board on a quarterly basis. Quarterly detailed reporting is prepared by the Independent Consultant which compares the Trust and manager results to representative peer groups over various time periods (quarterly and greater). For longer periods (three years and greater), comparisons of both absolute and risk-adjusted returns are included. Managers will be ranked against their peers.

Investment managers will provide, at a minimum, quarterly reports to the Chief Investment Officer that detail results relative to performance objectives and indicate compliance with strategy and
guidelines. A brief narrative will accompany manager’s quarterly reports.

7.0 RESPONSIBILITIES

The Spokane Employees Retirement System shall administer this policy.

8.0 APPENDICES

Appendix A  Actuaries
Appendix B  SERS Acceptable Asset Classes and Asset Allocation
Appendix C  SERS Target Asset Class Summary
Chart      SERS September 30, 2005 Asset Allocation
Chart      SERS Future Target Asset Allocation

APPROVED BY:

[Signatures]

City Attorney
Director
Deputy Mayor
Date 3/15/06
Appendix A  

Actuaries

An actuarial valuation is required every other year on the odd numbered years (e.g., December 31, 2005, 2007, etc.). An actuarial valuation update is performed every other year on the even numbered years (e.g., December 31, 2006, 2008, etc.) Actuarial valuation updates are performed at the discretion of the Board. Assumption studies will be performed every five years, and sooner if need. The Board may elect to engage a second actuary to perform a review of the actuarial assumptions.

Based on the December 31, 2003 actuarial valuation, the long-term investment assumption for SERS is 7.0% (net of expenses).
## Appendix B  SERS Acceptable Asset Classes and Asset Allocation - Revised 2/22/06

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Manager</th>
<th>Benchmark</th>
<th>Actual 12/31/05</th>
<th>Actual 12/31/05 %</th>
<th>Policy Target</th>
<th>Policy Range</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EQUITIES:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large Cap Value</td>
<td>BKF (formerly Levin)</td>
<td>S&amp;P 500</td>
<td>21,876,413</td>
<td>10.0%</td>
<td>12.0%</td>
<td>10 - 17%</td>
</tr>
<tr>
<td>Large Cap Value</td>
<td>Total</td>
<td></td>
<td>21,876,413</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large Cap Growth</td>
<td>Chase</td>
<td>Russell 1000 Growth</td>
<td>13,770,974</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large Cap Growth</td>
<td>Edgewood</td>
<td>Russell 1000 Growth</td>
<td>11,833,803</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large Cap Growth</td>
<td>Trusco</td>
<td>Russell 1000 Growth</td>
<td>11,146,321</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large Cap Growth</td>
<td>Total</td>
<td></td>
<td>36,751,098</td>
<td>17.0%</td>
<td>10.0%</td>
<td>10 - 15%</td>
</tr>
<tr>
<td>Large Cap Core</td>
<td>Victory</td>
<td>S&amp;P 500</td>
<td>22,154,971</td>
<td>10.2%</td>
<td>5.0%</td>
<td>0 - 10%</td>
</tr>
<tr>
<td>Index Funds</td>
<td>Colect Trust S&amp;P Index</td>
<td>S&amp;P 500</td>
<td>11,429,180</td>
<td>5.3%</td>
<td>0.0%</td>
<td>0 - 10%</td>
</tr>
<tr>
<td>Mid Cap Value</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mid Cap Growth</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small Cap Value</td>
<td>ICM</td>
<td>Russell 2000 Value</td>
<td>17,552,018</td>
<td>8.1%</td>
<td>6.0%</td>
<td>5 - 10%</td>
</tr>
<tr>
<td>Small Cap Growth</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International</td>
<td>Euro Pacific Growth</td>
<td>Custom Index**</td>
<td>10,446,438</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>International</td>
<td>Templeton Foreign</td>
<td>Custom Index**</td>
<td>6,759,587</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Global</td>
<td>Global Allocation*</td>
<td>Custom Index**</td>
<td>15,329,038</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intl/Global</td>
<td>Total</td>
<td></td>
<td>32,535,063</td>
<td>15.0%</td>
<td>15.0%</td>
<td>12 - 18%</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td></td>
<td></td>
<td>0</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0 - 3%</td>
</tr>
<tr>
<td><strong>FIXED INCOME:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td></td>
<td>5,363,141</td>
<td>2.5%</td>
<td>1.0%</td>
<td>0 - 3%</td>
</tr>
<tr>
<td>U.S. Core Bonds</td>
<td>McDonnell</td>
<td>ML Domestic Master</td>
<td>16,447,351</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Core Bonds</td>
<td>Allegiance</td>
<td>ML Domestic Master</td>
<td>16,498,365</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>U.S. Core Bonds</td>
<td>Wedge</td>
<td>ML Domestic Master</td>
<td>16,397,543</td>
<td></td>
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<tr>
<td>U.S. Core Bonds</td>
<td>In-House</td>
<td>ML Domestic Master</td>
<td>19,368,252</td>
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<tr>
<td>U.S. Core Bonds</td>
<td>Total</td>
<td></td>
<td>68,711,511</td>
<td>31.8%</td>
<td>11.0%</td>
<td>10 - 20%</td>
</tr>
<tr>
<td>High Yield Bonds</td>
<td></td>
<td></td>
<td>0</td>
<td>5.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Convertible Bonds</td>
<td></td>
<td></td>
<td>0</td>
<td>3.0%</td>
<td>2 - 5%</td>
<td></td>
</tr>
<tr>
<td>Global Bonds</td>
<td></td>
<td></td>
<td>0</td>
<td>0.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>International Bonds</td>
<td></td>
<td></td>
<td>0</td>
<td>5.0%</td>
<td>3 - 8%</td>
<td></td>
</tr>
<tr>
<td><strong>OTHER/ALTERNATIVE:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>REITs</td>
<td></td>
<td></td>
<td>0</td>
<td>8.0%</td>
<td>5 - 10%</td>
<td></td>
</tr>
<tr>
<td>Hedge Funds</td>
<td></td>
<td></td>
<td>0</td>
<td>8.0%</td>
<td>5 - 10%</td>
<td></td>
</tr>
<tr>
<td>Managed Futures</td>
<td></td>
<td></td>
<td>0</td>
<td>5.0%</td>
<td>0 - 7%</td>
<td></td>
</tr>
<tr>
<td>Private Equity</td>
<td>Venture Capital</td>
<td></td>
<td>102,740</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0 - 5%</td>
</tr>
<tr>
<td><strong>Total Portfolio</strong></td>
<td></td>
<td></td>
<td>216,276,135</td>
<td>100.0%</td>
<td>100.0%</td>
<td></td>
</tr>
</tbody>
</table>

*Note: The Global Allocation Fund contains U.S. stocks and international bonds, among other investments; therefore, the 15.0% asset allocation reflects a global allocation. **Actual international equities are at 10%. Certain other asset allocations are not exact.

**The custom index consists of various international and U.S. indices, which are weighted accordingly.
### Appendix C  
#### SERS Target Asset Class Summary

<table>
<thead>
<tr>
<th>Class</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equities</strong></td>
<td></td>
</tr>
<tr>
<td>Domestic</td>
<td>39.0%</td>
</tr>
<tr>
<td>Foreign</td>
<td>15.0%</td>
</tr>
<tr>
<td><strong>Total Equities</strong></td>
<td><strong>54.0%</strong></td>
</tr>
<tr>
<td><strong>Fixed Income</strong></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>1.0%</td>
</tr>
<tr>
<td>Domestic</td>
<td>11.0%</td>
</tr>
<tr>
<td>Foreign</td>
<td>5.0%</td>
</tr>
<tr>
<td>High Yield</td>
<td>5.0%</td>
</tr>
<tr>
<td>Convertible</td>
<td>3.0%</td>
</tr>
<tr>
<td><strong>Total Fixed Income</strong></td>
<td><strong>25.0%</strong></td>
</tr>
<tr>
<td><strong>Alternative</strong></td>
<td></td>
</tr>
<tr>
<td>REITs</td>
<td>8.0%</td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>8.0%</td>
</tr>
<tr>
<td>Managed Futures</td>
<td>5.0%</td>
</tr>
<tr>
<td><strong>Total Alternative</strong></td>
<td><strong>21.0%</strong></td>
</tr>
<tr>
<td><strong>Total Portfolio</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>
SERS Future Target Asset Allocation

- Domestic Equity, 38.0%
- Foreign Equity, 15.0%
- Domestic Bonds, 12.0%
- Foreign Bonds, 5.0%
- High Yield Bonds, 5.0%
- Convertible Bonds, 3.0%
- REITs, 8.0%
- Hedge Funds, 8.0%
- Managed Futures, 5.0%
- Cash, 1.0%