Tacoma Employees' Retirement System

INVESTMENT POLICY STATEMENT
November 2024

A. PURPOSE

The Investment Policy Statement ("IPS") of the Tacoma Employees' Retirement System (the "Plan") will provide the framework for the management of the Plan's assets. The IPS sets forth an investment structure for managing Plan assets that is expected to produce a sufficient level of overall diversification and total investment return over the long-term to adequately cover the Plan's benefit and expense obligations.

In addition, the IPS has been formulated to encourage effective communication among the Board, staff, the Investment Advisory Committee ("IAC") and the investment consultant, and to designate their roles in meeting the investment goals of the Plan.

These investment goals are stated below:

1. The overall goal of the Plan is to provide benefits to its participants and their beneficiaries through consistent contributions made by both employer and employees and a carefully planned and executed investment program.
2. Over long time periods, expected investment returns should match or exceed the actuarial assumed rate of return as adopted periodically by the Board. There is no reason to target returns which materially exceed this level, especially if this entails taking on more risk.
3. Over short time periods, the investment portfolio should be liquid enough to fund expected near-term benefit payments.
4. The investment risks taken by the Plan should be prudent and reasonable. When allocating capital, the Plan should avoid speculative investments. Instead, allocations should be made to assets whose values are primarily based on future cash flows received via ownership or lending.
5. The Plan's investments shall comply with applicable local, state and federal regulations.

This IPS shall be reviewed annually by the Board and, when appropriate, may be amended. Changes to this document will be subject to Board approval.

B. GENERAL INVESTMENT POLICIES

1. In developing the IPS, the Board shall periodically request asset allocation studies that reflect the current and expected financial condition of the Plan, expected long term capital market

conditions and the Board’s risk tolerance. These studies provide an opportunity for the Board to evaluate the appropriateness of adding or eliminating asset classes or strategies.

   a. The Board will undertake asset allocation studies no less frequently than every five years and shall determine (1) the asset classes to be included in the investment portfolio, (2) the targeted or normal allocations to each asset class to achieve the desired level of diversification and return (collectively, the “Strategic Asset Allocation”), and (3) the range in which the allocations are permitted to fluctuate.

   b. The Strategic Asset Allocation shall be sufficiently diversified to maintain investment risk at a reasonable level, as determined by the Board, with the goal of achieving the actuarially determined rate of return.

   c. The Strategic Asset Allocation should reflect many factors, including both historical and projected asset class risks and returns, historical and projected correlations among asset classes, expected inflation and interest rates, and expected developments of the Plan’s benefit and expense obligations.

2. The Board will implement the Strategic Asset Allocation by selecting investment managers with requisite experience and expertise in the appropriate investment classes and styles.

3. The Board will regularly review each manager’s investment performance on a total return basis against objectives determined by the Board.

4. A qualified custodian bank shall hold the Plan’s assets, settling purchases and sales of securities, identifying and collecting income which becomes due and payable on assets held, and providing management information and systems for accounting for the assets.

5. It is the responsibility of the Board to manage the investments of the Plan at a reasonable cost, being careful to review costs versus benefits. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs and other administrative costs chargeable to the Plan.

6. The staff will reallocate assets on a periodic basis to balance the overall asset allocation against the target when deviations occur because of capital market fluctuations. All percentage allocations in this policy are based on the market value of assets. Further details on rebalancing can be found in Section D of this document.

7. The Board considers the active voting of proxies an integral part of the investment process. Proxy voting may be delegated to the discretion of investment managers retained by the Board. The managers shall be required to establish a proxy voting policy and maintain records of proxy votes and shall make these records available to the Board or its designee as requested. For those mandates which allow client input to proxy voting via the selection of a pre-formed proxy policy, the Board may choose the proxy policy which best reflects the interests of plan participants.

8. The Board acknowledges that when the Plan invests in a collective investment fund or other pooled vehicle, that vehicle will have uniform investment guidelines for all investors.

9. No investment or action pursuant to an investment may be taken unless expressly permitted by the IPS, unless approved by the Board.

C. CURRENT STRATEGIC ASSET ALLOCATION

The Board has adopted the following Strategic Asset Allocation, effective December 2024.

	Target	Allowable Range
Growth	**43.5%**	**38.5% - 48.5%**
Global Equity	19.0%	
Low Volatility Global Equity	9.5%	
Private Equity	15.0%	
Defensive Growth	**15.0%**	**12.5% - 17.5%**
Emerging Market Debt	5.0%	
High Yield	5.0%	
Bank Loans	2.0%	
Private Credit	3.0%	
Defensive	**24.5%**	**20.5% - 28.5%**
Core Fixed Income	21.5%	
Long U.S. Government	3.0%	
Inflation Sensitive	**17.0%**	**14.0% - 20.0%**
Private Real Estate	10.0%	
Private Real Assets	7.0%	
Total	100.0%	

The Board may adopt an Interim Asset Allocation Target when prudently transitioning between current and newly adopted Strategic Asset Allocation Targets, particularly when the expected timeline to reach the new Strategic Asset Allocation Targets exceeds six months.

ASSET CLASS DESCRIPTIONS

GROWTH: 43.5%

The primary purpose of the Growth segment is to achieve a total return that, over a market cycle, provides for principal appreciation. Such investments provide the Plan with exposure to global economic growth risk and seek to capture capital appreciation and current income from both public and private opportunities. It is recognized that the pursuit of this objective will entail the assumption of greater market variability and risk.

- **GLOBAL EQUITY: 19.0%**
  The Global Equity segment of the portfolio will be allocated to U.S., international and emerging market equity securities. These securities are included to provide the Plan with the potential to earn high rates of return relative to other asset classes, recognizing that equity investments also contain commensurate risk levels. To reduce currency risk, developed market non-U.S. equities will be partially hedged back to the U.S. dollar. In addition, cash balances which are part of the overlay program will be assigned to the category and returns generated from the overlay program will be consolidated with returns from equity holdings.
- **LOW VOLATILITY GLOBAL EQUITY: 9.5%**
  The Low Volatility Global Equity segment of the portfolio will be invested in a portfolio of securities demonstrating lower volatility than the market capitalization weighted Global Equity portfolio. These strategies are included to provide the Plan with the potential to earn rates of return similar to traditional Global Equity over extended time periods, with comparatively reduced volatility.
- **PRIVATE EQUITY: 15.0%**
  Private Equity investments are intended to provide the Plan with the potential to earn higher rates of return relative to other asset classes, recognizing that private equity investments also contain commensurate risk levels. Additionally, private equity investments are significantly less liquid than those in the public markets. Private equity investments may include investments in venture capital, buyouts, co-investments and secondaries.

DEFENSIVE GROWTH: 15.0%

The purpose of the Defensive Growth segment is to provide exposure to assets that exhibit sensitivity to economic growth as well as some level of income and diversification to Growth assets. The Defensive Growth segment includes investments in diversified public and private credit, and may be rated below investment grade, or be unrated.

- **HIGH YIELD: 5.0%**
  High Yield is comprised of bonds which are rated below investment grade, and have been issued by going concern corporations. High Yield exhibits higher yields to maturity than investment grade bonds, which improves the Plan’s net cash flow.

- **EMERGING MARKETS DEBT: 5.0%**
  Emerging Markets Debt represents debt investments in entities domiciled in developing markets and may be denominated in currencies other than the U.S. dollar. Emerging market debt bonds exhibit higher yields to maturity than the sovereign debt of developed market countries, which improves the Plan's cash flows.
- **PRIVATE CREDIT: 5.0%**
  Private Credit consists of debt arrangements executed via the private markets. These investments are significantly less liquid than their public market counterparts and may involve below investment grade or unrated entities. These investments contain higher risk than public securities with investment grade companies but tend to offer a higher return and have historically generated stronger recoveries in case of defaults.

DEFENSIVE: 24.5%

The purpose of the Defensive segment is to provide diversification to reduce the overall volatility of the portfolio and therefore reduce the variability of contribution amounts required. This segment focuses more on capital preservation than capital appreciation, and also provides for current income and liquidity to support current benefit payments. The Defensive segment will primarily be invested in investment grade fixed-income opportunities.

- **CORE FIXED INCOME: 21.5%** Core fixed income mandates primarily invest in U.S. investment grade bonds, which have historically provided stable returns with little loss due to default. Core fixed income is expected to provide moderate appreciation, positive cash flow and materially less volatility than the Growth asset classes.
- **LONG DURATION GOVERNMENT BONDS: 3.0%**
  The Long Duration Government bond allocation consists of U.S. Treasury and U.S. agency bonds with maturities longer than ten years. This allocation provides an offset in the event of a sharp equity market selloff and also serves as a high-quality liquidity buffer.

INFLATION SENSITIVE: 17.0%

The purpose of the Inflation Sensitive segment is to generate current income and provide capital appreciation, via a set of investments which also provide a return sensitive to inflation.

- **PRIVATE REAL ESTATE: 10.0%**
  Private Real Estate involves the purchase of physical buildings in the U.S., primarily in the Office, Industrial, Residential, and Retail commercial sectors, with returns generated via appreciation and rent income. Private Real Estate investments are significantly less liquid that those in the public markets, with third-party appraised valuations provided quarterly. Investments in Private Real Estate securities shall be limited to Core-focused commingled funds, i.e., those funds which invest in properties in desirable areas, with high occupancy rates, and which are leased to creditworthy tenants for long periods of time.

- **PRIVATE REAL ASSETS: 7.0%**
  Investments included in the Private Real Assets class include those assets whose primary purpose is to achieve overall portfolio diversification and to provide a potential hedge against inflation in traditional investment markets. Investments in infrastructure, commodities, agriculture, master limited partnerships and timberland commonly exhibit lower correlations to the traditional equity and fixed-income markets, and may offer attractive returns. Private Real Assets investments may be in commingled funds or separately managed accounts and may have reduced liquidity.

CASH AND CASH EQUIVALENTS

There is no allocation to cash or cash equivalents. It is recognized that residual cash can result from normal trading activity, and sufficient cash is held in a short-term investment fund to accommodate benefit and expense payments, as needed.

However, these cash balances are incorporated into a cash overlay program, which uses derivatives to synthetically invest the cash balances into Global Equities. As such, the net cash exposure of the Plan's asset portfolio is small. This is detailed in the Overlay Investment Policy Statement.

D. REBALANCING TO THE STRATEGIC ASSET ALLOCATION

On a regular basis, staff and the investment consultant will compare the Plan's actual asset allocation to the Strategic and Interim Asset Allocation Targets to determine if they are within the permitted ranges. This comparison shall be developed from the asset valuations obtained from the Plan's custodian. If this comparison reveals that an asset class is above the upper or below the lower bound of the designated range, staff will reallocate assets to return the asset class back into the target range, subject to market liquidity conditions. Cash flows that occur in the normal operation of the Plan may also be used to reallocate towards the Asset Allocation Targets.

Investments in private markets (Private Equity, Private Credit, Private Real Estate and Private Real Assets) are generally less liquid than investments in public markets securities and are typically implemented via periodic commitments to funds with limited partnership structures. As a result, actual allocations to these asset classes may deviate from their strategic targets for extended periods. Actual versus target deviations for these asset classes shall not be considered in violation of the Strategic Asset Allocation Policy. Under/overweights to these asset classes shall be invested in public markets securities with the most similar risk/return characteristics as a short-term proxy for the private asset classes.

E. PERFORMANCE OBJECTIVES

Long-term objectives have been established against which the performance of the Plan is to be measured. Because capital markets fluctuate and given the long-term nature of the Plan's liability stream, the viability of the Strategic Asset Allocation is to be judged over a longer time horizon, generally greater than five years. The performance objectives are:

1. To generate an investment return that matches or exceeds the Board-approved policy-weighted index that is calculated by weighting the appropriate indices according to the Strategic Asset Allocation. The appropriate asset class benchmarks are laid out in the following table and are subject to change by the Board.

Asset Class	Benchmark/Index	Description
Global Equity	50% MSCI ACWI + 50% MSCI ACWI with Developed Markets 100% Hedged to USD	Broad measure of world stock markets, including developed and emerging markets
Low Volatility Global Equity	MSCI ACWI Minimum Volatility	Rules-based index of world stock markets, including developed and emerging markets
Private Equity	MSCI ACWI IMI + 3%, lagged one quarter	Public market returns with an added spread to reflect an illiquidity premium
High Yield Fixed Income	BofA Merrill Lynch U.S. High Yield Master II Constrained	Represents the investable U.S. high yield market
Emerging Market Debt	J.P. Morgan EMBI Global Diversified	Broad measure of investable emerging market debt
Bank Loan	CSFB Leveraged Loan	Broad measure of investable bank loan market
Private Credit	TBD	TBD
Core Fixed Income	Bloomberg U.S. Aggregate	Investment Grade U.S. issues with more than one year to maturity
Long U.S. Government	Bloomberg Long Government Bond	Fixed-rate debt issued by the U.S. government with maturities over 10 years
Private Real Estate	NFI ODCE Property Index (may be lagged one quarter)	Private Core real estate holdings
Private Real Assets	CPI+3%	Infrastructure is primarily focused on projects with consistent, inflation-sensitive cash flows

2. To add value by selecting investment managers who utilize active management where advisable; to invest passively where the benefit of active management is less pronounced.

3. Over long time periods, investment returns should match or exceed the actuarial assumed rate of return as adopted periodically by the Board.

F. GENERAL INVESTMENT MANAGER GUIDELINES

The investment management for the Plan is to be provided by external investment managers. Each investment manager will acknowledge its fiduciary status and other conformity with applicable state and federal laws. Additionally, the individual managers will be judged according to benchmarks that reflect the objectives and characteristics of the strategic role their mandate is to fulfill, and relative to their peers.

The use of derivatives should not be a major component of an investment strategy. Derivative positions which are used for exposure management (that is, which are used to modify an underlying financial holding, but do not add leverage to the portfolio) are allowed. The use of derivatives in an overlay program shall be governed by the Overlay Investment Policy Statement.

G. CONTROL PROCEDURES

As numerous parties are involved in the management of Plan assets, each party's specific duties and requirements are laid out in this section.

1. The Board's responsibilities include, but are not limited to:
    a. Developing and adopting policies to achieve the Plan's general investment goals and objectives.
    b. Reviewing policy recommendations made by staff and the investment consultant.
    c. Approving asset classes for investment and approving a Strategic Asset Allocation, permissible ranges and benchmarks for each asset class.
    d. Monitoring asset allocation versus target, and monitoring total fund and investment manager performance versus benchmarks.
    e. Selecting the appropriate proxy policy for those mandates which allow client input on selecting a proxy policy.
    f. Selecting, monitoring and retaining or terminating the Plan's Custodian, investment consultant(s), actuaries, and external investment managers.

The Board may delegate some of its responsibilities to others such as staff, and may utilize the services of external advisors, such as actuaries, auditors, consultants and legal counsel, to assist in fulfilling its fiduciary responsibilities. The comments and recommendations of such parties will be considered by the Board in conjunction with Board discussion of the issues for the purpose of making informed and prudent decisions.

2. The staff's duties include, but are not limited to:
    a. Engaging with consultants, and other pertinent parties, to seek advice and counsel regarding asset allocation, investment strategy, manager selection and investment results.
    b. Providing recommendations on asset allocation, investment strategy and investment manager selection to the Board.
    c. Overseeing the management of the Plan's asset class allocations within ranges approved by the Board, in accordance with IPS guidelines.

d. Evaluating the decision to add new investment managers, monitoring existing managers and evaluating the decision to remove existing managers.
e. Manage the overall liquidity in the portfolio to ensure timely payment of member benefit payments and Plan expenses and the investment of contributions consistent with established asset allocation and portfolio rebalancing policies.
f. Implementing investment actions approved by the Board, when specifically delegated to staff.

3. The Board's independent investment consultant's responsibilities include, but are not limited to:
a. Providing independent review, analysis and recommendations regarding the development and revision of policies to ensure overall consistency, use of best practices, and implementation of policies.
b. Monitoring, evaluating and reporting periodically, to the Board, on the performance of the Plan relative to the benchmark and the Strategic Asset Allocation.
c. Monitoring and evaluating the Plan's investment managers.
d. Periodically performing a detailed review of the Plan's asset allocation resulting in specific recommendations.
e. Regular updates of projected asset class total return, volatility and correlation assumptions.
f. Issuing in-depth research reports ("white papers") on pertinent topics.
g. Assisting in fee negotiations with external investment managers, as needed.

4. The external investment managers are responsible for all aspects of portfolio management as set forth in each manager's contract with the Plan and shall fulfill the following duties:
a. Exercise full investment discretion over the Plan assets under its care, custody, and/or control in accordance with the objectives and guidelines in their specific contract and fund governing documents.
b. Acknowledge and agree to take fiduciary responsibility over the Plan assets entrusted to their care.
c. If directed, promptly vote all proxies and related actions in a manner consistent with TERS's long-term interests and objectives set forth herein. Each investment manager designated to vote shall keep detailed records of said voting of proxies and related actions and will comply with all regulatory obligations related thereto.
d. Communicate with staff, as needed, regarding investment strategies and investment results and present or report directly to the Board as requested.
e. Monitor, analyze, and evaluate performance relative to the agreed-upon benchmark.

5. The duties of the IAC are outlined in the Revised Code of Washington ("RCW"), section 35.39.090. The IAC shall:
a. Make recommendations on investment policies, practices and procedures to the Board.
b. Review the investment transactions of the Retirement Board annually.
c. Prepare a written report of its activities during each fiscal year.

Further details on the IAC's duties can be found in the Investment Advisory Committee Policy.

H. INVESTMENT BELIEFS

This section is intended to capture the investment beliefs that are foundational to TERS' investment decisions. It seeks to provide a roadmap to guide decision-makers to invest in a manner that consistently reflects TERS' views on how to approach investing.

In this respect, the below should help TERS' policy leaders and other decision makers to develop policies, procedures and investment plans for TERS' assets which remain philosophically consistent over time.

Belief 1: Asset allocation is the primary decision driving portfolio risk and returns.

TERS is a defined benefit plan with promised benefits (liabilities), strong funded status, and net negative cash flows. These factors should always be considered when determining the appropriate asset allocation. Asset class performance materially determines portfolio risk and performance. Consideration of the long-term expected risks, returns and interrelationships of the various asset classes will improve the risk-adjusted return profile of TERS' investment portfolio.

Belief 2: Periodic, systematic rebalancing to Asset Allocation Targets adds value over time.

The full benefits of an asset allocation are maintained via rebalancing back towards target. By forcing the portfolio to sell high/buy low, incremental returns can be generated. Such a rebalancing program must consider the costs to rebalance, and not be overzealous in its activity.

Belief 3: Active management should be used only if the benefits are pronounced versus a passive solution.

TERS prefers to utilize passive as its default choice, due to it being inexpensive and transparent. In determining the use of active solutions, consideration should be given to the alpha potential of the asset class, the persistence and size of net-of-fee excess returns, and the availability and cost of suitable passive solutions.

Belief 4: Due to its long investment horizon, TERS is well positioned to take advantage of an illiquidity premium.

Despite being a negative cash flow plan, TERS does not currently demand a large amount of liquidity from its portfolio. Illiquid investments have historically offered a return premium to compensate for the inability to quickly buy or sell them. To the extent investments in private asset classes offer higher returns / risk reduction advantages, TERS should allocate appropriately to them.

Belief 5: Where possible, TERS should reduce / eliminate uncompensated risk.

TERS seeks to avoid investment activity that exposes it to higher risk without a commensurate increase in expected return. Examples include concentrations in a single stock, sector or country which can easily be diversified away.

Belief 6: Portfolio construction should seek the lowest level of complexity which achieves its investment goals.

Modern investing is full of unnecessary complexity. TERS believes a simple portfolio can achieve the overall goals of the pension plan while adding complexity can result in diminishing returns/additional costs. Aside from solving a discrete problem, or where a clear benefit exists, TERS seeks to avoid complexity.

This includes holding a small number of managers, targeting a limited number of asset classes in its asset allocation, and avoiding overly complex investment strategies (hedge funds, etc.). In addition, funds of funds provide a simple and economical core exposure for most private asset classes.

Belief 7: Projected portfolio volatility should correspond to funding status.

TERS has historically enjoyed a robust funding status. This allows TERS to be conservative in the investment options it pursues. In general, if TERS remains well-funded, we prefer lower risk strategies over higher risk ones.

Belief 8: Plan-level leverage should be restricted.

Leverage can both enhance and diminish returns. When applied at the total plan level, it can overwhelm all other factors in the portfolio's investment returns. As such, a very high bar should be used when considering proposals for adding plan-level leverage.

Belief 9: Alignment of financial interests between TERS and its investment managers and advisors is key.

TERS is best served by its external investment professionals when there is a contractual alignment between its interests and those of the external party. Transparency of the financial interests of its managers and advisors is key in determining this alignment.

Belief 10: Tactical positioning by TERS staff should be avoided.

Historically the capital markets have proven themselves to be remarkably efficient. It is unlikely TERS staff has a unique information advantage regarding the financial markets or relative valuations between asset classes. As such, TERS staff should avoid making market timing calls in any of their activities.