

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
Report of Independent Auditors
and Financial Statements with
Required Supplementary Information
and Additional Information

December 31, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

Board of Administration
Seattle City Employees' Retirement System
Seattle, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Seattle City Employees' Retirement System (SCERS), which comprise the statements of fiduciary net position as of December 31, 2017 and 2016, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SCERS as of December 31, 2017 and 2016, and the results of its operations for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of changes in net pension liability and related ratios, employer contributions, and investment returns be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The additional information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional information, as listed in the table of contents, is fairly stated in all material respects in relation to the financial statements as a whole.

CliftonLarsonAllen LLP

Baltimore, Maryland
July 26, 2018

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2017 and 2016

This section presents management's discussion and analysis of the Seattle City Employees' Retirement System's (SCERS or the System) financial performance during the years ended December 31, 2017 and 2016. Please read it in conjunction with the accompanying financial statements and the related notes.

The City of Seattle is responsible for establishing and maintaining an internal control structure designed to ensure the protection of assets from loss, theft, or misuse, and to ensure the accounting information generated is adequate to prepare financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, though not absolute, assurance of achieving these objectives.

As a department of the City of Seattle, the Seattle City Employees' Retirement System is subject to this internal control structure. In addition, section 4.36.140.D of the Seattle Municipal Code requires the Board of Administration to annually transmit a report of the financial condition of the System to the City Council.

This report is prepared in accordance with the principles of governmental accounting and reporting promulgated by the Governmental Accounting Standards Board (GASB). Investments are stated at fair value, and revenues include the recognition of unrealized gains and losses. The accrual basis of accounting is used to record assets, liabilities, revenues and expenses. Revenue recognition occurs when earned without regard to the date of collection. Expense recognition occurs when the corresponding liabilities are incurred, regardless of payment date. The basis of contributions to the System follows the principles of level cost financing, with current service financed on a current basis. Milliman Consultants and Actuaries, the consulting actuary, evaluates the funding status of the System.

This report contains the following information:

- 1. Basic Financial Statements** including:
 - a. Statements of Fiduciary Net Position
 - b. Statements of Changes in Fiduciary Net Position
 - c. Notes to the Financial Statements
- 2. Required Supplementary Information** including:
 - a. Schedule of Changes in Net Pension Liability and Related Ratios
 - b. Schedule of Employer Contributions
 - c. Schedule of Investment Returns
- 3. Additional Information** including:
 - a. Schedule of Administrative Expenses
 - b. Schedule of Investment Expenses

The basic financial statements are described as follows:

- The Statement of Fiduciary Net Position shows the account balances at year-end and includes the net position available for future benefit payments. The liabilities for future benefit payments are not included in this statement; however, they are shown in the Schedule of Changes in Net Pension Liability and Related Ratios that is included in the Required Supplementary Information.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2017 and 2016

- The Statement of Changes in Fiduciary Net Position shows the sources and uses of funds during the year and illustrates the change in net position from the previous year.
- The Notes to the Financial Statements are an integral part of the financial statements and include additional detailed information and schedules to provide a better understanding of the financial statements.

The required supplementary information provides historical trends that help to reflect the ongoing plan perspective and the long-term nature of the defined benefit plan.

- The Schedule of Changes in Net Pension Liability and Related Ratios contains actuarial information about the status of the plan.
- The Schedule of Employer Contributions contains historical trend information regarding the value of the total annual contributions the employer must pay and the actual contributions paid by employers in meeting this requirement.
- The Schedule of Investment Returns contains the investment returns realized on the total portfolio for the years since 2014.

Financial Highlights

- Net position increased by \$364 million (14.6%) during 2017. The primary driver was net investment income of \$389 million. Net position increased by \$175 million (7.6%) during 2016. The primary driver was a \$190 million in the net investment income.
- Revenue additions to net position for 2017 were \$575 million which includes member and employer contributions of \$186 million and revenue from investment activity totaling \$389 million. Revenue additions to net position for 2016 were \$370 million which includes member and employer contributions of \$180 million and revenue from investment activity totaling \$190 million.
- Expenses (deductions from net position) for 2017 increased by \$16 million (8.1%) from 2016. This can be primarily attributed to a \$10 million increase in retiree benefits. In 2017, the net increase in the number of retirees receiving benefits was 2.4%. Expenses for 2016 increased by \$11 million (6.0%) from 2015. This can be primarily attributed to an \$9.6 million increase in retiree benefits. In 2016, the net increase in the number of retirees receiving benefits was 2.6%.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2017 and 2016

Fiduciary Net Position

The table below provides a summary of assets and current liabilities for the years ended December 31:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cash, short-term investments and receivables	\$ 293,323,449	\$ 443,140,843	\$ 170,672,072
Investments at fair value	2,815,776,988	2,351,299,369	2,154,482,878
Securities lending collateral	<u>11,358,941</u>	<u>11,130,677</u>	<u>50,952,037</u>
Total assets	<u>3,120,459,378</u>	<u>2,805,570,889</u>	<u>2,376,106,987</u>
Securities lending payable	11,350,612	11,125,376	53,633,431
Other payables	<u>256,236,201</u>	<u>305,947,349</u>	<u>9,452,393</u>
Total liabilities	<u>267,586,813</u>	<u>317,072,725</u>	<u>63,085,824</u>
Total net position	<u>\$ 2,852,872,565</u>	<u>\$ 2,488,498,164</u>	<u>\$ 2,313,021,163</u>

Changes in Fiduciary Net Position

The table below provides a summary of the changes in plan net position and reflects the activities of the fund for the years ended December 31:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Additions:			
Employer contributions	\$ 112,102,982	\$ 108,454,496	\$ 101,153,403
Member contributions	73,650,409	71,755,857	65,779,216
Net investment income and other income	<u>389,136,824</u>	<u>189,941,169</u>	<u>7,083,633</u>
Total additions	<u>574,890,215</u>	<u>370,151,522</u>	<u>174,016,252</u>
Deductions:			
Retiree benefits	179,226,526	168,967,298	159,349,807
Refunds of contributions	19,158,756	16,456,570	16,137,840
Administrative expenses	<u>12,130,532</u>	<u>9,250,653</u>	<u>8,211,137</u>
Total deductions	<u>210,515,814</u>	<u>194,674,521</u>	<u>183,698,784</u>
Net increase (decrease)	<u>\$ 364,374,401</u>	<u>\$ 175,477,001</u>	<u>\$ (9,682,532)</u>

Revenues - Additions to Fiduciary Net Position

- In 2017, employer contributions increased by \$3.6 million (3.4%) compared to 2016. In 2016, employer contributions increased by \$7.3 million (7.2%) compared to 2015.
- Member contributions increased by \$1.9 million (2.6%) compared to 2016. In 2016, member contributions increased by \$6.0 million (9.1%) compared to 2015.
- Net investment income was \$389.1 million in 2017 compared to \$189.9 million in 2016 and \$7.1 million in 2015.

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2017 and 2016**

Expenses - Deductions from Fiduciary Net Position

- Retiree benefits increased in 2017 by \$10.3 million (6.1%) compared to 2016, primarily due to the increased number of members making application for retirement and a mandatory 1.5% COLA (Cost of Living Adjustment). As a comparison, retiree benefits increased \$9.6 million (6.0%) in 2016.
- Refunds of contributions increased in 2017 by \$2.7 million (16.4%) compared to amounts paid in 2016. In 2016, refunds increased by \$0.3 million (2.0%) compared to amounts paid in 2015.

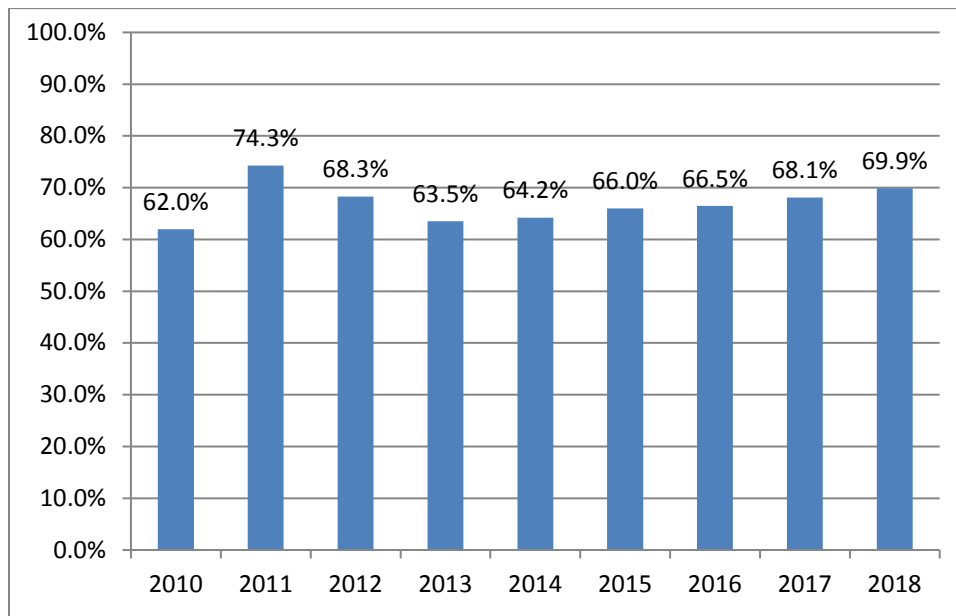
Changes in Plan Membership

The table below reflects the active membership and retiree changes for the years ended December 31:

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Retirees and beneficiaries receiving benefits	6,534	6,382	2.4%
Current and terminated employees:			
Current employee members	9,283	9,151	1.4%
Terminated members entitled to, but not yet receiving benefits, Vested	1,312	1,257	4.4%
Terminated members not entitled to benefits beyond contributions and accumulated interest, Non-Vested	1,193	1,095	8.9%
Total	<u>11,788</u>	<u>11,503</u>	2.5%

Funding Status

Schedule of Funding Progress
Funding Ratio
As of January 1st Valuation Date



With the January 1, 2011 Valuation and the 2007-2010 Experience Study, the Board of Administration adopted a policy of asset smoothing over a 5-year period. The reported funding ratio as of January 1, 2012 reflects that change. Prior to January 1, 2011, all funding ratios were reported on a market basis.

Funds are accumulated from employer and employee contributions and investment earnings, and are used to pay present and future benefit obligations and administrative expenses. We continue to make a constant effort to achieve a fully funded status, thereby assuring the participants of a financially sound retirement system. In 2017, most active members contributed 10.03% of their salaries to the retirement fund and the City contributed 15.29%. In 2016, most active members contributed 10.03% of their salaries to the retirement fund and the City contributed 15.23%.

The graph above refers to the results of actuarial valuations prepared for funding purposes in accordance with Actuarial Standards of Practice (ASOPs). However, GASB 67 requires a separate actuarial valuation for accounting purposes. The primary purpose of the valuation for accounting purposes is to provide consistent, standardized methodology that allows comparability of amounts and increased transparency of the pension liability across U.S. pension plans complying with GASB 67. When reporting in accordance with GASB 67, the Plan Fiduciary Net Position as a Percentage of the Total Pension Liability was 72.04% as of December 31, 2017.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2017 and 2016

Investment Activities

One-year returns on asset classes (gross of fees) and comparative benchmarks are presented in the table below for the years ended December 31. These returns are calculated on a time-weighted rate of return basis:

2017 Investment Performance

Total Portfolio	16.0%
Bench Mark: Policy Index	15.6%
Public Equity	23.9%
Bench Mark: MSCI ACWI IMI W/US Gross	24.3%
Core Fixed Income	3.9%
Bench Mark: Bloomberg: Barclays U.S Assergate	3.5%
Credit Fixed Income	8.1%
Bench Mark: Bloomberg: Custom Credit Index	7.2%
Private Equity	9.2%
Bench Mark: Custom Private Equity Index	9.7%
Real Estate	7.7%
Bench Mark: NCREIF ODCE Index	6.7%
Diversifying Strategies	8.8%
Bench Mark: HFRI Fund of Funds Comp. Index	7.7%
Cash	0.0%
Bench Mark: Citigroup 3-Month T-Bills	0.9%

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2017 and 2016

2016 Investment Performance

Total Portfolio	8.6%
Domestic Equities	13.2%
Benchmark: Russell 3000 Index (Blend)	12.7%
International Equities	5.2%
Benchmark: MSCI ACWI ex US IM/ND	4.4%
Broad Fixed Income	4.3%
Benchmark: Barclays U.S. Universal Index	3.9%
Private Equity	6.5%
Benchmark: ASP Custom Private Equity Index	0.4%
Real Estate	9.7%
Benchmark: Russell NCREIF Property Index	9.1%
Diversifying Strategies	0.0%
Benchmark: HFRI Fund of Funds Comp. Index	0.5%
Cash	0.0%
Benchmark: Citigroup 3-Month T-Bills	0.3%

The investments of the System are governed primarily by the prudent investor rule. The prudent investor rule, as set forth by the Revised Code of Washington, establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the fund. The System invests retirement funds for the long-term, anticipating both good and poor performing financial markets. The overall investment portfolio is positioned in a diversified manner to maximize return given the System's risk tolerance.

Contacting the Seattle City Employees' Retirement System

If you have questions about this report or need additional information, please contact us by telephone at: 206.386.1293 or by e-mail at: retirecity@seattle.gov or you may mail your questions to:

Seattle City Employees' Retirement System
720 Third Avenue, Suite 900
Seattle, WA 98104

FINANCIAL STATEMENTS

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF FIDUCIARY NET POSITION
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets:		
Cash	\$ 5,513,428	\$ 6,302,934
Short-term investments	111,309,124	336,427,114
Total cash and short-term investments	<u>116,822,552</u>	<u>342,730,048</u>
Receivables:		
Members	4,327,168	3,434,870
Employer	5,657,238	6,143,927
Interest and dividends	4,103,031	3,486,918
Sales proceeds receivable	162,413,460	87,345,080
Total receivables	<u>176,500,897</u>	<u>100,410,795</u>
Investments, at fair value:		
Fixed income	676,019,482	539,527,403
Equity	1,604,858,505	1,350,196,766
Real estate	304,854,074	287,996,774
Alternative investments	230,044,927	173,578,426
Total investments, at fair value	<u>2,815,776,988</u>	<u>2,351,299,369</u>
Securities lending collateral	<u>11,358,941</u>	<u>11,130,677</u>
Total assets	<u>3,120,459,378</u>	<u>2,805,570,889</u>
Liabilities:		
Pensions payable and other	3,321,750	1,370,010
Obligations under securities lending	11,350,612	11,125,376
Investment commitments payable	252,914,451	304,577,339
Total liabilities	<u>267,586,813</u>	<u>317,072,725</u>
Fiduciary net position held in trust for pension benefits	<u>\$ 2,852,872,565</u>	<u>\$ 2,488,498,164</u>

The accompanying notes are an integral part of these financial statements.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Additions:		
Contributions:		
Employer	\$ 112,102,982	\$ 108,454,496
Member	<u>73,650,409</u>	<u>71,755,857</u>
Total contributions	<u>185,753,391</u>	<u>180,210,353</u>
Investment activities:		
Investment income:		
Net change in fair value of investments	363,468,284	163,299,357
Interest	13,471,317	10,569,831
Dividends	<u>22,509,987</u>	<u>24,780,531</u>
Net investment income	<u>399,449,588</u>	<u>198,649,719</u>
Securities lending activities:		
Securities lending income	133,711	100,217
Borrowing rebates	<u>(44,277)</u>	<u>165,375</u>
Total securities lending income	89,434	265,592
Securities lending management fees	<u>(20,135)</u>	<u>(66,376)</u>
Net income from securities lending	<u>69,299</u>	<u>199,216</u>
Investment activity expenses:		
Investment management fees	(9,783,194)	(8,186,323)
Investment consultant fees	(295,000)	(295,000)
Investment custodial fees	<u>(303,869)</u>	<u>(426,443)</u>
Total investment activity expenses	<u>(10,382,063)</u>	<u>(8,907,766)</u>
Net income from investment activities	<u>389,136,824</u>	<u>189,941,169</u>
Total additions	<u>574,890,215</u>	<u>370,151,522</u>
Deductions:		
Benefits	179,226,526	168,967,298
Refunds of contributions	19,158,756	16,456,570
Administrative expenses	<u>12,130,532</u>	<u>9,250,653</u>
Total deductions	<u>210,515,814</u>	<u>194,674,521</u>
Net change	364,374,401	175,477,001
Fiduciary net position held in trust for pension benefits		
Beginning of year	<u>2,488,498,164</u>	<u>2,313,021,163</u>
End of year	<u>\$ 2,852,872,565</u>	<u>\$ 2,488,498,164</u>

Note 1 - Plan Description

The Seattle City Employees' Retirement System (the System) is a multiple employer defined benefit public employee retirement plan, covering employees of the City of Seattle and administered in accordance with Chapter 4.36 of the Seattle Municipal Code. The System is a pension trust fund of the City of Seattle.

The System is administered by the Retirement System Board of Administration (the Board). The Board consists of seven members including the Chair of the Finance Committee of the Seattle City Council, the City of Seattle Finance Director, the City of Seattle Personnel Director, two active members and one retired member of the System who are elected by other system members, and one outside board member who is appointed by the other six board members. Elected and appointed board members serve for three-year terms.

All employees of the City of Seattle are eligible for membership in the System with the exception of uniformed police and fire personnel who are covered under a retirement system administered by the State of Washington. Employees of METRO and the King County Health Department who established membership in the System when these organizations were City of Seattle departments were allowed to continue their System membership (there are currently fewer than 50 members in this category). There are currently 6,534 retirees and beneficiaries receiving benefits, and 9,283 active members of the System. There are 1,312 terminated, vested employees entitled to future benefits.

The System provides retirement, death, and disability benefits. Retirement benefits vest after five years of credited service, while death and disability benefits vest after ten years of service. Retirement benefits are calculated as 2% multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months. The benefit is actuarially reduced for early retirement. The System provides post-retirement benefit increase including an automatic 1.5% annual COLA increase and a 65% restoration of purchasing power benefit.

The City of Seattle adopted a second tier for the System in 2016. Starting January 1, 2017, new eligible employees will join this second tier. The tier is a defined benefit plan much like the original tier but has a lower contribution rate for members and calculates final average salary based on the highest 60 consecutive months of service. Other changes related to the new tier can be found in the Seattle Municipal Code 4.36.

Note 2 - Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting - These financial statements have been prepared with an "economic resources" measurement focus on the accrual basis of accounting in accordance with generally accepted accounting principles, as prescribed by the Government Accounting Standards Board.

Use of Estimates in Preparing Financial Statements - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the System to make estimates and assumptions that affect the reported amounts of assets, liabilities, additions and deductions to net position held in trust for pension benefits and disclosure of contingent assets and liabilities at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

Note 2 - Summary of Significant Accounting Policies and Plan Asset Matters (Continued)

Cash and Short Term Investments - The System classifies cash on deposit in financial institutions and cash on deposit in the City of Seattle's internal cash management pool as cash. The System also recognizes certain short-term highly liquid securities with an original maturity of three months or less as short-term investments.

Method Used to Value Investments - Plan investments are reported at fair value. Fair value is defined as the amount at which an investment could be exchanged in a current arm's length transaction between willing parties in which the parties each act knowledgeably and prudently. All investments are valued based on objective, observable, unadjusted quoted market prices in an active market on the measurement date, if available. In the absence of such data, valuations are based upon those of comparable securities in active markets. For illiquid or hard to value investments such as real estate, private equity, and other private investments, valuations are based upon data provided by the respective investment managers. These private asset valuations are generally based upon estimated current values and/or independent appraisals.

Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments, interest and dividend income earned, less investment expense, plus income from securities lending activities, less deduction for security lending expenses. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Securities and securities transactions are reflected in the financial statements on a trade-date basis. Investments are made in accordance with the Prudent Person Rule as defined by the State of Washington RCW 35.39.060.

Federal Income Tax Status - The System is a qualified plan under section 401(a) of the Internal Revenue Code and is exempt from federal income taxes under section 501(a).

Contributions - Employee and employer contributions are reported in the year they are due to the System.

Benefits and Refunds of Contributions - Benefits and refunds of contributions are recognized when due and payable in accordance with the System's policy.

Note 3 - Contributions

Member and employer contributions rates are established by the Seattle Municipal Code Chapter 4.36.

The employer contribution rate is determined by the actuarial formula identified as the Entry Age Cost Method. The formula determines the amount of contributions necessary to fund the current service cost, representing the estimated amount necessary to pay for benefits earned by the employees during the current service year and the amount of contributions necessary to pay for prior service costs. Total required contributions, including amounts necessary to pay administrative costs, are determined through annual actuarial valuations.

Actuarially determined contribution rates were 10.03% for most members in 2017 and 2016 and 15.29% and 15.23% for the employers in 2017 and 2016. There are no long-term contracts for contributions outstanding and currently no legally required reserves. See Note 9 for additional information on assumptions used in calculating the actuarially determined contribution rates.

Note 4 - Cash

SCERS' policy for custodial credit risk of deposits is to rely on Federal Deposit Insurance Corporation (FDIC) and Washington Public Deposit Protection Commission (PDPC) insurance. FDIC insures the cash deposits up to \$250,000. As provided by the State of Washington RCW 43.84, the PDPC collateralizes deposits in excess of \$100,000. The bank balances of deposits of a FDIC institution as of the balance sheet date are insured.

Note 5 - Investments

Investment policy - The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the SCERS Board by a majority vote of its members. It is the policy of the SCERS Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of December 31, 2017:

Asset Class	Target Allocation
Equity	
Public Equity	48.0%
Private Equity	9.0%
Fixed Income	
Core Fixed Income	16.0%
Credit Fixed Income	7.0%
Real Assets	
Real Estate	12.0%
Infrastructure	3.0%
Diversifying Strategies	5.0%
Total	100.0%

Note 5 - Investments (Continued)

Money-weighted rate of return – As of December 31, 2017, the return for the System, based on a money-weighted rate of return methodology, was 16.25%. As of December 31, 2016, the return for the System, based on a money-weighted rate of return methodology, was 8.62%.

Short Term Investments - Short term investments include a Short-term Investment Fund (STIF), which is a collective trust that may include certificates of deposit, treasury bills, and mutual funds.

Commingled Funds – The System invests in various commingled funds where it has an ownership interest in a pool of securities alongside other fund holders. For those commingled funds that are anticipated to be held by the System on a long-term basis, the following tables in this Section reflect the System's pro rata net asset value in these commingled funds. The System's investments in commingled funds that are anticipated to be held on a temporary basis are not reflected in this manner.

Custodial Credit Risk – For investments, custodial credit risk is the risk that in the event of the failure of a financial institution or a bank, the System will not be able to recover the value of its deposits or investments that are in the possession of an outside party. The System mitigates custodial credit risk by having its investment securities held by the System's custodian (BNY Mellon) and registered in the System's name. The System's short-term investments are created through daily sweeps of excess cash by the System's custodian, and invested in a vehicle managed by the custodian.

Credit Risk - Credit risk is the risk that an issuer, or other counterparty, to an investment will not fulfill its obligations. The Retirement Board provides each of the System's Broad Fixed Income investment managers with a set of investment guidelines. These guidelines specify eligible investments, minimum diversification standards, and applicable investment restrictions necessary for diversification and risk control. In general, these guidelines require that at least 70 percent of the net asset value of a manager's portfolio be invested in investment-grade securities. Managers do not have authority to depart from their guidelines. A summary of the credit ratings of the System's fixed income investments is provided on pages 22 and 23.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Retirement Board provides each of the System's Broad Fixed Income investment managers with a set of investment guidelines. These guidelines specify eligible investments, minimum diversification standards, and applicable investment restrictions necessary for diversification and risk control. In general, these guidelines require that investments in any one issuer may not exceed 5 percent of the net asset value of a manager's portfolio. Managers do not have authority to depart from their guidelines.

Note 5 - Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. Market or interest rate risk is the greatest risk faced by an investor in the debt securities market. The price of a debt security typically moves in the opposite direction of the change in interest rates. The Retirement Board provides each of the System's Broad Fixed Income investment managers with a set of investment guidelines. These guidelines specify eligible investments, minimum diversification standards, and applicable investment restrictions necessary for diversification and risk control. In general, these guidelines require that the weighted average duration of the security holdings of a manager's portfolio not vary from that of the applicable benchmark by more than 20 percent. Managers do not have authority to depart from their guidelines. A summary of the maturities of the System's fixed income investments is provided on pages 20 and 21.

The fixed income portfolio is primarily managed by four external money management firms. Managers have agreed to a set of guidelines that provide ranges and limits for varying types of securities that may be held within the portfolio. A consultant is hired to measure performance and monitor the investment style. The Investment Committee reviews the consultant's results quarterly.

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The System's currency risk exposures, or exchange rate risk, primarily reside within the non-U.S. equity and fixed income investment holdings. The System expects these managers to maintain adequately diversified portfolios to limit foreign currency and security risk.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 5 - Investments (Continued)

The System's exposure to foreign currency risk in U.S. dollars as of December 31, 2017, is summarized in the following table.

Currency Type	Equity	Fixed Income	Derivatives	Cash	Total
Australian Dollar	\$ 3,488,650	\$ -	\$ -	\$ 71,136	\$ 3,559,786
Canadian Dollar	4,874,861	-	-	43,997	4,918,858
Swiss Franc	4,101,755	-	-	3,939	4,105,694
Danish Krone	884,851	-	-	7,655	892,506
Euro Currency Unit	16,438,125	-	-	63,395	16,501,520
Pound Sterling	8,991,644	-	-	73,802	9,065,446
Hong Kong Dollar	1,687,095	-	-	47,360	1,734,455
Israeli Shekel	107,128	-	-	4,251	111,379
Japanese Yen	12,177,697	-	-	75,859	12,253,556
Norwegian Krone	402,048	-	-	22,911	424,959
New Zealand Dollar	75,688	-	-	5,737	81,425
Polish Zloty	-	-	-	-	-
Swedish Krona	1,394,402	-	-	6,447	1,400,849
Singapore Dollar	655,546	-	-	22,687	678,233
Total	\$ 55,279,490	\$ -	\$ -	\$ 449,176	\$ 55,728,666

The System's exposure to foreign currency risk in U.S. dollars as of December 31, 2016, is summarized in the following table.

Currency Type	Equity	Fixed Income	Derivatives	Cash	Total
Australian Dollar	\$ 3,100,873	\$ -	\$ 33,999	\$ 22,467	\$ 3,157,339
Canadian Dollar	4,119,689	-	22,374	14,998	4,157,061
Swiss Franc	3,643,597	-	20,659	1,523	3,665,779
Danish Krone	676,323	-	12,509	2,731	691,563
Euro Currency Unit	12,804,253	-	108,622	7,921	12,920,796
Pound Sterling	7,535,544	-	69,738	60,144	7,665,426
Hong Kong Dollar	1,257,177	-	1,041	4,820	1,263,038
Israeli Shekel	86,014	-	-	1,394	87,408
Japanese Yen	9,978,529	-	28,389	44,458	10,051,376
Norwegian Krone	324,414	-	6,956	7,206	338,576
New Zealand Dollar	81,293	-	-	1,857	83,150
Polish Zloty	-	-	10,362	-	10,362
Swedish Krona	1,163,964	-	-	25,638	1,189,602
Singapore Dollar	474,219	-	1,396	12,769	488,384
Total	\$ 45,245,889	\$ -	\$ 316,045	\$ 207,926	\$ 45,769,860

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 5 - Investments (Continued)

Derivatives - The derivatives used by the System typically have no greater risk than their physical counterparts and, in many cases, are offset by exposures elsewhere in the portfolio. Counterparty risk, the risk that the "other party" to a contract will default, is managed by careful screening of counterparties. Derivative securities are priced and accounted for at fair value. Foreign exchange forward contracts are valued at the price at which the transaction could be settled by offsets in the forward markets.

The System's derivative transactions as of December 31, 2017 are summarized in the following table.

Type	Unrealized Gain/Loss			Notional Value	
	Long Position	Short Position	Total	Long Position	Short Position
Futures - Fixed Income	\$ (492,713)	\$ -	\$ (492,713)	\$ 127,400,063	\$ -
Futures - Equity	-	(314,398)	(314,398)	-	(47,816,645)
Options - Fixed Income	(20,732)	10,009	(10,723)	N/M	N/M
Options - Equity	-	(141,491)	(141,491)	N/M	N/M
Options - Short-Term	9,741	5,217	14,958	N/M	N/M
Swaps - Fixed Income	437,928	133,744	571,671	109,100,000	(109,100,000)
Total	<u>\$ (65,776)</u>	<u>\$ (306,919)</u>	<u>\$ (372,695)</u>		

The information in the above table on 2017 derivative transactions is displayed differently than prior years. The following tables show the System's derivative transactions as of December 31, 2016 as re-stated and as originally presented.

The System's derivative transactions as of December 31, 2016 as re-stated are summarized in the following table.

Type	Unrealized Gain/Loss			Notional Value	
	Long Position	Short Position	Total	Long Position	Short Position
Futures - Fixed Income	\$ (435,875)	\$ 15,754	\$ (420,122)	\$ 124,264,125	\$ (20,996,794)
Futures - Equity	(417,997)	-	(417,997)	35,950,655	-
Options - Fixed Income	-	18,963	18,963	N/M	N/M
Options - Equity	-	133,807	133,807	N/M	N/M
Swaps - Fixed Income	301,468	185,361	486,829	151,000,000	(151,000,000)
Total	<u>\$ (552,404)</u>	<u>\$ 353,885</u>	<u>\$ (198,520)</u>		

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 5 - Investments (Continued)

The System's derivative transactions as of December 31, 2016 as originally presented are summarized in the following table.

<u>Currency Type</u>	<u>Purchases</u>	<u>Unrealized Gain/Loss</u>	<u>Sells</u>	<u>Unrealized Gain/Loss</u>	<u>Total Unrealized Gain/Loss</u>
Australian Dollar	\$ -	\$ -	\$ 35,642	\$ (1,642)	(1,642)
Canadian Dollar	-	-	22,589	(215)	(215)
Swiss Franc	-	-	21,803	(1,144)	(1,144)
Danish Krone	-	-	14,763	(2,253)	(2,253)
Euro Currency Unit	-	-	132,167	(23,542)	(23,542)
Pound Sterling	-	-	71,738	(1,999)	(1,999)
Hong Kong Dollar	-	-	1,040	-	-
Japanese Yen	-	-	29,993	(1,604)	(1,604)
Norwegian Krone	-	-	11,712	(4,756)	(4,756)
Polish Zloty	-	-	11,695	(1,333)	(1,333)
Singapore Dollar	-	-	1,393	2	2
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 354,535</u>	<u>\$ (38,486)</u>	<u>\$ (38,486)</u>

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 5 - Investments (Continued)

As of December 31, 2017, the fixed income portfolio of the System had the following investment maturities:

Investment	Fair Value	Investment Maturities (in years)				N/A *
		<1	1 - 5	6 - 10	>10	
Fixed income						
Agencies	\$ 1,935,869	\$ -	\$ 1,935,869	\$ -	\$ -	\$ -
Asset Backed Security	39,887,331	-	18,893,763	19,457,546	1,536,022	-
Commingled Funds	-	-	-	-	-	-
Corporate Debt	307,815,002	21,001,662	101,627,601	156,467,927	28,717,812	-
Derivatives	1,800,232	(260,595)	2,109,003	(48,176)	-	-
Foreign Sovereign	29,142,160	330,819	7,055,414	13,455,666	8,300,261	-
Mortgage Backed Security	180,601,625	-	202,608	9,472,854	170,926,163	-
Municipal	4,621,829	88,845	-	707,798	3,825,186	-
Treasury Notes and Bonds	110,215,434	1,773,712	45,569,401	32,453,854	30,418,467	-
Total Fixed Income	676,019,482	\$ 22,934,443	\$ 177,393,659	\$ 231,967,469	\$ 243,723,911	\$ -

**Note - Amounts primarily relate to commingled funds and therefore a weighted average was not available.*

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 5 - Investments (Continued)

As of December 31, 2016, the fixed income portfolio of the System had the following investment maturities:

Investment	Fair Value	Investment Maturities (in years)				N/A *
		<1	1 - 5	6 - 10	>10	
Fixed income						
Agencies	\$ 3,384,578	\$ -	\$ 1,951,858	\$ 1,432,720	\$ -	\$ -
Asset Backed Security	18,417,402	-	8,988,044	8,981,776	447,582	-
Commingled Funds	35,149,819	-	-	-	-	35,149,819
Corporate Debt	236,226,048	1,620,730	52,011,703	146,404,165	29,676,020	6,513,430
Derivatives	1,761,087	(30,617)	1,991,620	-	(199,916)	-
Foreign Sovereign	1,503,600	-	-	1,503,600	-	-
Mortgage Backed Security	176,024,872	-	-	4,540,822	171,484,050	-
Municipal	5,443,906	-	196,728	1,187,943	4,059,235	-
Treasury Notes and Bonds	61,616,091	8,821,496	18,628,819	22,791,357	11,374,419	-
Total Fixed Income	<u>539,527,403</u>	<u>\$ 10,411,609</u>	<u>\$ 83,768,772</u>	<u>\$ 186,842,383</u>	<u>\$ 216,841,390</u>	<u>\$ 41,663,249</u>

* Note - Amounts primarily relate to commingled funds and therefore a weighted average was not available.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 5 - Investments (Continued)

As of December 31, 2017, the fixed income portfolio of the System had the following investment ratings:

Investment	Fair Value	Ratings							
		AAA	AA	A	BBB	BB	B	CCC& Below	Not Rated
Fixed income									
Agencies	\$ 1,935,869	\$ -	\$ 1,935,623	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 246
Asset Backed Security	39,887,330	31,743,697	1,338,259	-	-	-	-	412,693	6,392,681
Commingled Funds	-	-	-	-	-	-	-	-	-
Corporate Debt	307,815,003	873,215	11,022,428	45,897,058	105,048,362	53,883,265	55,828,019	14,203,669	21,058,987
Derivatives	1,800,232	-	-	-	-	-	-	-	1,800,232
Foreign Sovereign	29,142,160	-	-	2,295,639	7,041,800	7,541,209	5,595,255	857,307	5,810,950
Mortgage Backed Security	180,601,625	1,816,758	80,026,060	496,503	515,467	-	-	-	97,746,837
Municipal	4,621,829	1,185,003	732,903	1,930,283	773,640	-	-	-	-
Treasury Notes and Bonds	110,215,434	-	110,215,434	-	-	-	-	-	-
Total Fixed Income	\$ 676,019,482	\$ 35,618,673	\$ 205,270,707	\$ 50,619,483	\$ 113,379,269	\$ 61,424,474	\$ 61,423,274	\$ 15,473,669	\$ 132,809,933

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 5 - Investments (Continued)

As of December 31, 2016, the fixed income portfolio of the System had the following investment ratings:

Investment	Fair Value	Ratings							
		AAA	AA	A	BBB	BB	B	CCC& Below	Not Rated
Fixed income									
Agencies	\$ 3,384,578	\$ -	\$ 3,382,492	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,086
Asset Backed Security	18,417,402	13,720,413	315,854	-	-	-	-	447,582	3,933,553
Commingled Funds	35,149,819	-	-	-	-	-	-	-	35,149,819
Corporate Debt	236,226,048	1,283,302	5,897,549	28,201,323	76,234,613	44,649,385	43,049,133	4,668,682	32,242,061
Derivatives	1,761,087	-	-	-	-	-	-	-	1,761,087
Foreign Sovereign	1,503,600	-	-	-	1,503,600	-	-	-	-
Mortgage Backed Security	176,024,872	1,959,137	66,487,270	1,010,059	848,978	-	-	-	105,719,429
Municipal	5,443,906	1,695,605	1,230,246	2,518,054	-	-	-	-	-
Treasury Notes and Bonds	61,616,091	-	61,616,091	-	-	-	-	-	-
Total Fixed Income	\$ 539,527,403	\$ 18,658,457	\$ 138,929,502	\$ 31,729,436	\$ 78,587,191	\$ 44,649,385	\$ 43,049,133	\$ 5,116,264	\$ 178,808,035

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 6 - Fair Value Measurements

Fair value measurements are categorized within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset:

- Level 1: unadjusted quoted prices for identical instruments in active markets
- Level 2: quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable
- Level 3: significant inputs are unobservable

The following schedule¹ presents investments categorized according to the fair value hierarchy, and is proceeded with additional information regarding investments measured at the net asset value as of December 31, 2017:

Investments by fair value level	12/31/2017	Fair Value Measurements Using		
		Quoted Prices in Active Markets Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity Securities	\$ 745,311,784	\$ 745,767,811	\$ (471,890)	\$ 15,863
Fixed Income Securities	503,457,043	109,722,722	393,734,321	-
Total investments by fair value level	1,248,768,827	855,490,533	393,262,431	15,863
Fund Investments measured at the net asset value (NAV)				
Equity	868,952,952			
Fixed Income	176,523,956			
Real Estate	304,828,502			
Alternative Investments	230,044,927			
Total investments measured at the NAV	1,580,350,337			
Less total fund investments identifiable as short-term investments	\$ 13,342,176			
Total investments		\$ 2,815,776,988		

Fund Investments Measured at the NAV

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Alternative Investments	230,044,927	217,378,224	Monthly, N/A	75 Days, N/A
Equity	868,952,952	-	Daily, Monthly	1 - 30 Days
Fixed Income	176,523,956	-	Monthly	5 - 30 Days
Real Estate	304,828,502	61,905,884	Quarterly, N/A	45 Days, N/A
Total investments measured at the NAV	1,580,350,337	279,284,108		

¹ Fund investments may consist of underlying securities that are not exclusively in the fund-defined asset class. In other schedules, those securities are categorized based on the asset class of the underlying security rather than the fund.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 6 - Fair Value Measurements (Continued)

The following schedule presents investments categorized according to the fair value hierarchy, and is proceeded with additional information regarding investments measured at the net asset value as of December 31, 2016:

Investments by fair value level	12/31/2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity	\$ 639,807,625	\$ 636,258,397	\$ 3,533,147	\$ 16,081
Fixed Income	413,737,686	96,765,911	316,971,775	-
Total investments by fair value level	1,053,545,311	733,024,308	320,504,922	16,081
Investments measured at the net asset value (NAV)				
Equity	710,389,141			
Fixed Income	125,789,717			
Real Estate	287,996,774			
Alternative Investments	173,578,426			
Total investments measured at the NAV	1,297,754,058			
Total investments	\$ 2,351,299,369			

Investment	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Equity	\$ 710,389,141	\$ -	Daily, Monthly	1 - 30 Days
Fixed Income	125,789,717	-	Monthly	30 Days
Real Estate	287,996,774	9,444,262	N/A	N/A
Alternative Investments	173,578,426	242,114,969	N/A	N/A
Total investments measured at the NAV	1,297,754,058	251,559,231		

Alternative Investments – These investments are structured as limited partnerships or limited liability companies. Strategies include private equity, private credit, infrastructure and diversifying strategies. These investments include those with a perpetual life and the ability to redeem as well as investments with an approximate life of 10 years where redemptions are restricted. There are no plans to liquidate the total portfolio.

Equity – These investments are structured as mutual funds, trusts, limited partnerships or limited liability companies. The funds have a perpetual life. Redemption frequencies range from daily to monthly. There are no plans to liquidate the portfolio.

Fixed Income – These investments are structured as limited partnerships. The funds have a perpetual life. The redemption frequency is monthly. There are no plans to liquidate the portfolio.

Note 6 - Fair Value Measurements (Continued)

Real Estate – These investments are structured as trusts, limited partnerships or limited liability companies. These investments include those with a perpetual life and the ability to redeem as well as investments with an approximate life of 10 years where redemptions are restricted. There are no plans to liquidate the total portfolio.

Note 7 - Securities Lending Transactions

Under the authority of State of Washington RCW 41.28.005 and the Seattle Municipal Code 4.36.130, the System's Board of Administration adopted investment policies that define eligible investments, which include securities lending transactions. Through a custodial agent, the System participates in a securities lending program whereby securities are lent for the purpose of generating additional income to the System. The System lends securities from its investment portfolio on a collateralized basis to third parties, primarily financial institutions. The market value of the required collateral must meet or exceed 102% of the market value of the securities lent, providing a margin against a decline in the market value of the collateral, and is limited to a volume of less than \$75 million. The contractual agreement with the System's custodian provides indemnification in the event the borrower fails to return the securities lent or fails to pay the System income it is due on the securities lent. Cash and U.S. government securities were received as collateral for these loans. The System invests cash collateral received; accordingly, investments made with cash collateral appear as an asset. A corresponding liability is recorded as the System must return the cash collateral to the borrower upon the expiration of the loan. Gross income from securities lending transactions are recorded in the operating statements as well as the various fees paid to the institution that oversees the lending activity.

As of December 31, 2017, the fair value of securities on loan was \$11,028,844. Associated cash collateral totaling \$11,350,612 was received. The fair market value of the reinvested collateral was \$11,358,941 at December 31, 2017, which includes an unrealized gain totaling \$8,329.

As of December 31, 2016, the fair value of securities on loan was \$10,791,203. Associated cash collateral totaling \$11,125,376 was received. The fair market value of the reinvested collateral was \$11,130,677 at December 31, 2016, which includes an unrealized loss totaling \$5,301.

Note 8 - Commitments

The System has entered into capital commitments to fund partnership interests in certain alternative investments. At December 31, 2017, the System has unfunded commitments of \$279,284,108 to these partnerships.

Note 9 - Net Pension Liability

The components of the net pension liability as of December 31, 2017 were as follows:

Total Pension Liability	\$3,960,042,655
Plan Fiduciary Net Position	<u>2,852,872,565</u>
Net Pension Liability	<u>\$1,107,170,090</u>

Plan Fiduciary Net Position as a Percentage of the Total Pension Liability 72.04%

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2016, using the following actuarial assumptions, applied to all periods including the measurement period:

Investment Rate of Return:	7.50% compounded annually, net of expenses
Salary Increases:	4.00%
Inflation:	3.25%
Actuarial Cost Method:	Individual Entry Age Normal

* The actuarial assumptions used in the January 1, 2016 valuation, and the mortality tables included in Appendix A of the valuation, were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2013.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of geometric real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2017 (see discussion of pension plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	
Public Equity	4.94%
Private Equity	6.25%
Fixed Income	
Core Fixed Income	0.42%
Credit Fixed Income	3.30%
Real Assets	
Real Estate	3.66%
Infrastructure	3.00%
Diversifying Strategies	3.09%

Note 9 - Net Pension Liability (Continued)

The above table reflects the expected (30 year) real rate of return for each major asset class. The expected inflation rate is projected at 3.25% for the same time period.

Discount Rate. The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and the participating governmental entity contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods on projected benefit payment to determine the total pension liability.

Sensitivity of the net pension liability. The following presents the net pension liability of the System, calculated using the discount rate of 7.50%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
\$1,586,836,840	\$1,107,170,090	\$703,684,341

REQUIRED SUPPLEMENTARY INFORMATION

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Total pension liability				
Service Cost	\$ 112,691,379	\$ 106,450,550	\$ 100,415,811	\$ 94,017,562
Interest	281,360,916	268,005,035	254,539,867	241,885,785
Benefit changes	-	-	-	-
Difference between expected and actual experience	(29,175,591)	(7,653,756)	1,983,005	-
Changes of assumptions	-	-	-	-
Benefits payments	(179,226,526)	(168,967,298)	(159,349,807)	(150,239,208)
Refunds of contributions	(19,158,756)	(16,456,570)	(16,137,840)	(15,103,615)
Net change in total pension liability	166,491,422	181,377,961	181,451,036	170,560,524
Total pension liability - beginning	<u>3,793,551,233</u>	<u>3,612,173,272</u>	<u>3,430,722,236</u>	<u>3,260,161,712</u>
Total pension liability - ending (a)	<u>3,960,042,655</u>	<u>3,793,551,233</u>	<u>3,612,173,272</u>	<u>3,430,722,236</u>
Plan net position				
Contributions - employer	112,102,982	108,454,496	101,153,403	89,988,898
Contributions - member	73,650,409	71,755,857	65,779,216	63,969,504
Net investment income	389,136,824	189,941,169	7,083,633	122,510,395
Benefits payments	(179,226,526)	(168,967,298)	(159,349,807)	(150,239,208)
Administrative expense	(12,130,532)	(9,250,653)	(8,211,137)	(5,330,764)
Refunds of contributions	(19,158,756)	(16,456,570)	(16,137,840)	(15,103,615)
Net change in plan net position	364,374,401	175,477,001	(9,682,532)	105,795,210
Plan net position - beginning	<u>2,488,498,164</u>	<u>2,313,021,163</u>	<u>2,322,703,695</u>	<u>2,216,908,485</u>
Plan net position - ending (b)	<u>2,852,872,565</u>	<u>2,488,498,164</u>	<u>2,313,021,163</u>	<u>2,322,703,695</u>
Net pension liability - ending (a) - (b)	<u>\$ 1,107,170,090</u>	<u>\$ 1,305,053,069</u>	<u>\$ 1,299,152,109</u>	<u>\$ 1,108,018,541</u>
Ratio of plan net position to total pension liability -- (b) / (a)	72.04%	65.60%	64.03%	67.70%
Covered employee payroll	\$ 733,300,000	\$ 708,600,000	\$ 641,700,000	\$ 630,900,000
Net pension liability as a percentage of covered-employee payroll	150.98%	184.17%	202.45%	175.63%

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS
Amounts Presented in Millions

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined employer contribution	\$112.1	\$107.9	\$100.9	\$90.3	\$77.1	\$62.5	\$72.3	\$93.9	\$46.9	\$46.2
Actual employer contributions	112.1	108.5	101.2	90.0	77.1	62.5	50.3	45.2	46.7	46.0
Annual contribution deficiency (excess)	0.0	(0.6)	(0.3)	0.3	0.0	0.0	22.0	48.7	0.2	0.2
Covered-employee payroll	733.3	708.6	641.7	630.9	597.9	567.8	557.0	563.2	580.9	572.4
Actual contributions as a percentage of covered-employee payroll	15.29%	15.31%	15.77%	14.27%	12.90%	11.01%	9.03%	8.03%	8.04%	8.04%

Notes to Schedule:

Valuation Date: Actuarially determined contribution rates are calculated as of January 1, one year prior to the fiscal year in which the contributions will apply.

Methods and Assumptions used to determine contribution rates for fiscal year 2017 are:

Actuarial cost method	Individual Entry Age Normal
Amortization method	Level percent
Remaining amortization period	Closed 30 years as of January 1, 2013 Valuation
Asset valuation method	5 years smoothed, Non-asymptotic
Inflation	3.25%
Salary increases	4.00%, differs slightly from actuarial valuation due to exclusion of 0.50% active membership growth assumption for GASB calculations.
Investment rate of return	7.50%, net of pension plan investment expense, and gross of administrative expenses
Cost of Living Adjustments	As noted in the January 1, 2014 actuarial valuation.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF INVESTMENT RETURNS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Portfolio	16.25%	8.62%	0.28%	5.67%

Note: These returns are calculated on a money-weighted rate of return basis. The schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

ADDITIONAL INFORMATION

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF ADMINISTRATIVE EXPENSES
Years Ended December 31, 2017 and 2016

	Budget	Actual Expense	
	<u>2017</u>	<u>2017</u>	<u>2016</u>
Personnel Services			
Salaries	\$ 2,757,021	\$ 3,283,743	\$ 2,849,584
Benefits	<u>881,281</u>	<u>1,105,121</u>	<u>914,188</u>
Total Personnel Services	<u>3,638,302</u>	<u>4,388,864</u>	<u>3,763,772</u>
Maintenance and Operations			
Professional Services	3,658,526	5,031,855	3,226,834
Office rent	225,455	477,384	341,023
Data processing and central costs	2,187,354	1,847,283	1,467,775
Office supplies and other expenses	284,294	255,782	325,214
Postage and telephone	59,047	49,022	44,915
Travel	68,295	69,065	65,576
Training	<u>19,618</u>	<u>11,277</u>	<u>15,544</u>
Total Maintenance and Operations	<u>6,502,589</u>	<u>7,741,668</u>	<u>5,486,881</u>
Total Administrative Expenses	<u>\$ 10,140,891</u>	<u>\$ 12,130,532</u>	<u>\$ 9,250,653</u>

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF INVESTMENT EXPENSES
Year Ended December 31, 2017

Investment Management Fees:	
Adams Street	\$ 810,110
AEW Core Property Trust	657,510
AQR Multistrat	435,446
Ares	274,361
Ashmore	252,832
Babson Tower Square	17,662
Bison Capital Equity Partners	10,681
BlackRock	272,939
Bluebay	208,410
Brookfield	406,367
Capital Point Partners	43,153
Carlyle Realty	52,049
City of London	77,882
DFA International	629,261
Dover Street	127,242
Global Infrastructure	219,414
Heitman American	602,479
JP Morgan	1,984,449
Oaktree	13,105
Parametric Delta Shift	401,034
PCCP	35,575
PIMCO	950,666
Pugh	253,108
RhumbLine	111,566
Russell	195,121
Stonepeak	85,853
TA Realty Associates	93,956
TCW Crescent	5,995
Cash	<u>68</u>
Total Investment Management Fees	<u>9,228,294</u>
True-Up of Prior Year Investment Fees	554,900
Performance Measurement:	
NEPC LLC	295,000
Custodial Services:	
Bank of New York Mellon	<u>303,869</u>
Total Investment Expenses	<u>10,382,063</u>
Securities Lending Services:	
Bank of New York Mellon	20,135