

FREQUENTLY ASKED QUESTIONS

February 23, 2009

1. Why do we sometimes lose money in MEBT?

- MEBT is a pooled investment that uses a blend of investments to achieve a return for participants over a long time horizon
- The asset allocation of 45% equities; 15% foreign equities; and 40% fixed income is a generally accepted asset allocation for a pool of money such as MEBT (MEBT returns were positive in 5 of the past 7 years)
- Markets typically have cycles of growth and contraction and during some years, participants may experience [losses](#)
- The economic downturn of 2008 was historic in its depth and breadth across asset types, industries, and countries.

2. What are MEBT's Objectives?

- MEBT's Objectives are described in its [Investment Policy Statement \(IPS\)](#).
- MEBT is managed with a long-term investment horizon.
- MEBT is managed strategically in line with a moderate asset allocation. MEBT invests in a well diversified portfolio recognizing the importance of preservation of capital and also acknowledging the theory of Capital Market Pricing – that varying degrees of investment risk should be rewarded with compensating returns.

3. Is MEBT a replacement for Social Security?

- MEBT is a defined contribution plan. What you receive from MEBT is based on contributions and any earnings or losses, not on a guaranteed formula.
- You decide whether to contribute to MEBT and an account is held in your name. You may take hardship withdrawals while employed, and when you retire or leave, you receive your vested account balance.
- The city contributes to MEBT what it would have paid to Social Security. These contributions are allocated to your account based on your match-eligible contributions. Historically, the City's match has been about 90%.
- While you are employed at an MEBT city, regardless of your participation in MEBT, you do not participate in Social Security and you do not receive Social Security credits.
- Your participation in the Washington State Department of Retirement Systems PERS or LEOFF programs is more similar to Social Security. Your contributions are mandatory and your benefit is established by law.

4. How is oversight provided to MEBT investments?

- One of the most important tasks of fiduciaries is the selection and monitoring of the investment managers or investment funds and subsequent performance.
- MEBT hires a Financial Advisor, UBS Institutional Consultants to provide research, monitoring and advice to the MEBT Investment Advisory Committee (IAC).
- UBS has a central group which provides manager due diligence for UBS groups around the country. Additionally, the UBS group located in Seattle specifically reviews MEBT investments.
- The IAC establishes criteria for the selection and monitoring of investment managers in the [MEBT IPS](#).
- The IAC meets quarterly to review the performance of the MEBT investment Managers and the economy as a whole. Manager performance is compared to benchmark indices that are established in the industry. Performance is also compared to peer managers in the same asset class. Two manager searches are underway to potentially replace existing managers.
- Searches involve extensive due diligence. UBS researches the funds, presents options and the IAC interviews the managers and selects the funds in a public process.
- The IAC continually reviews the philosophy and policies contained in the IPS and formally updates the IPS as necessary.

5. Why doesn't MEBT change their investments?

- The MEBT Trust Committee has a fiduciary responsibility to diversify, select and monitor investments. They must also diversify and follow the advice of their investment expert. If the Committee chose to do otherwise, they would be breaching their fiduciary duty.
- The Committee must follow the Investment Policy Statement (IPS). The IPS is designed to maintain discipline and take the emotion out of market swings.
- It is important to remember the Trust Committee can not act like individual investors because they are Trustees and have responsibility for other people's money.
- Finally, it has been shown that it is not wise to anticipate market moves. The most advantageous course of action over the long-term is to maintain a well-diversified portfolio. To react or anticipate would put participants' accounts in peril.

6. Why doesn't MEBT allow participant direction of investments or invest in City of Bellevue bonds?

- When MEBT was established 30+ years ago, the founders established a pooled investment fund. Subsequent MEBT Trust Committees have revisited the policy question and have concluded it remains the best option. Allowing participant direction would be more costly to participants for recordkeeping and required education.
- MEBT allows participants within 3 years of retirement, who express an intent to retire, three opportunities to irrevocably move all or a portion of their MEBT investments to a money market account. It would be possible to expand the years this option would be available, but would require Plan Committee and City Council action.
- MEBT investment managers have discretion to choose the investments they deem appropriate based on our objectives. Although City of Bellevue municipal bonds may be a good investment, it would be a conflict to invest in them directly.

7. Why doesn't MEBT invest in more conservative investments?

- MEBT strives to have a mix of investments that reflect an investor willing to take a *moderate* amount of risk to get commensurate returns. Some of MEBT's investments are considered conservative, others are considered more aggressive.
- The Core bond funds are considered "conservative" and historically produce returns that help portfolios weather economic storms. 2008 was an exception to the general rule with core bonds also performing poorly.
- It is important to note the Core bond fund manager holds approximately 25% of the total MEBT portfolio and invests in US Treasuries, mortgage-backed securities and other investments typically considered to be relatively conservative.
- In addition, MEBT's managers invest in dividend-paying securities typically providing yields that are distinct from the value of the stock.
- In the past, MEBT invested in Guaranteed Investment Contracts (GICs), offered by Insurance Companies. The Investment Advisory Committee of MEBT determined these were not the best investments for the MEBT portfolio in the long term. GICs are not without risk and are only as good as the underlying company. In effect, the owner holds the downside risk when times are bad - and when times are good, the insurance companies keep the upside.
- When the IAC moved out of GICs they added the high-yield and convertible managers, now managed by the Calamos High-Yield Fund. The Calamos manager tactically invests among high-yield bonds and convertible securities. Calamos has earned returns better than the index used to benchmark its [performance](#). Studies indicate over the long term that diversification in the fixed income arena (high-yield and convertibles) have added value and enhanced returns.