



**Seattle City Employees' Retirement System  
Board of Administration Meeting  
Seattle City Hall, Boards and Commissions Room  
(206) 386-1293**

**Board of Administration Members:**

Councilmember Tim Burgess, Chair  
Glen Lee  
Jean Becker  
Lou Walter  
Robert Harvey, Jr.  
Sherri Crawford  
Susan Coskey

**SCERS Staff:**

Ken Nakatsu, Interim Executive Director  
Jeff Davis, Chief Finance/Operations Officer  
Jason Malinowski, Chief Investment Officer  
Tony Smith, Deputy Chief Investment Officer  
Jill Johnson, Investment Strategic Advisor  
Cecelia Chen, Investment Analyst  
Clair Foster, IT Manager  
Cynthia Scheiderer, Member Services Manager  
Deontrae Sherrard, Principal Accountant  
Nina Melencio, Office Administrator

**Legal:**

Carlton Seu, Seattle City Attorney's Office  
Michael Ryan, Seattle City Attorney's Office  
Mike Monaco, Song Mondress Law Firm

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**Minutes of Thursday, January 14, 2016**

**Board Members Present:** Tim Burgess, Glen Lee, Jean Becker, Lou Walter (via conference call), Sherri Crawford, Susan Coskey (via conference call)

**SCERS Staff Present:** Jeff Davis, Jason Malinowski, Tony Smith, Jill Johnson, Cecelia Chen, Claire Foster, Nina Melencio

**Others Present:** Michael Ryan (Seattle City Attorney's Office), Mike Monaco (Song Mondress Law Firm), John Masterjohn (ARSCE), Barbara Graham (ARSCE), Nate Van Duzer (CM Burgess' office), Scott Larson (ViTech)

Tim Burgess, Committee Chair, called the meeting to order at 9:03 a.m.

Mr. Burgess asked if there was anyone present who wanted to make a public comment.

There was public comment.

John Masterjohn stated he was president of the Active and Retired Seattle City Employees (ARSCE) which represent approximately 1,700 members. Mr. Masterjohn had two items he wanted to speak about. The first item was divestment. The ARSCE board is against divestment of fossil fuels from the SCERS's portfolio. Mr. Masterjohn stated that SCERS needs to keep the portfolio as diverse as possible.

Mr. Masterjohn also came to speak about Interim Executive Director Ken Nakatsu. He stated that the Executive Director position will be interviewed for soon and Mr. Nakatsu will be someone who is hard to replace. Mr. Nakatsu has greatly improved the retirement system since taking over. Mr. Masterjohn asked the Board to take into account how Mr. Nakatsu worked with city employees, new retirees, ARSCE and the unions, when interviewing for his replacement.

Barbara Graham introduced herself as the vice president of ARSCE and stated that she was speaking on her own behalf today. She thanked the Board for hiring Ken Nakatsu as the interim Executive Director. She said that Mr. Nakatsu had a drive and compassion that enabled him to succeed in making a substantial contribution.

Ms. Graham also spoke about fossil fuel divestment. She asked the board to continue in their fiduciary responsibility when considering divestment.

## Administrative Consent Agenda

### Minutes

Provided in the Retirement board packet were the minutes from the December 10, 2015 Retirement Board regular meeting and the December 18, 2015 Special Meeting of the Board.

Jeff Davis stated there was nothing special to note.

Jean Becker said there was one comment on page 7 of the board packet that she is requesting to be deleted that is part of the administrative committee report. Ms. Becker stated it did not reflect her recollection of what occurred.

Mr. Burgess stated that the change will be made with no objections.

### Ratification of Retired Payroll, Office Payroll, Other Payments and Withdrawals

<b>Service</b>	\$12,661,704.44
<b>Beneficiary</b>	\$ 927,026.78
<b>Disability</b>	\$ <u>75,760.66</u>
<b>Pension Payroll – PPE December 2015</b>	\$13,664,491.88
<b>Office Payroll – PPE December 1, 15, and 29, 2015</b>	\$ 265,595.65
<b>Vouchers Processed – December 2015</b>	
• Expert and Consultant Services	\$ 38,057.00
• Investment Management Fees	\$ 558,904.60
• Interdepartmental Charges	\$ 113,231.96
• Miscellaneous	\$ 49,727.11

### **Immediate Withdrawals of Contributions for the month of December 2015:**

<b>MEMBER</b>	<b>Department Name</b>	<b>Position</b>
Albritton, Heidi Maurine	HSD	Executive1
Bartlett,Kara M	Library	Library Assoc I
Crovella, Marc	Library	Janitor-Library
Douglass, June Ellen	SCL	Customer Svc Rep
Henault,Brenda A	Library	Janitor-Library
Henderson,Jennifer D	Police	Pol Comms Dispatcher I
James, Lisa Sue	SCL	Accountant
Jones,Taira Markita	Muni Ct	Admin Spec - I MC
Kuylman,Marika F	SCL	Engrng Aide
Lucio,Toni Michelle	SCL	Accountant,Sr
Noble, Marion David	FAS	Cust Svc Rep
Overbey,Phyllis	Police	Retiree-Beneficiary
Painton,Michael D	Sea Ctr	Gardner

Payne,Vincent H	SDHR-TES	Admin Spec - II-BU
Rodriguez,Peter	Parks	Laborer
Spafford,D W	DPD	Elevator Inspector,Sr
Throckmorton,Alexandra	Parks	Lifeguard
Vanek, Russell K	DoIT	Info Tech Prof B-BU
Vanek, Russell K	DoIT	Info Tech Prof B-BU
Vela,Steven PF	Parks	Aquatic Cntr Coord

**Withdrawals for a total of: \$608,420.12**

Bold entries (if any) above indicate refund payment made to beneficiary of a member dying while in active status

c. Ratification of Service Retirements

The following list represents the retirements that have been processed since the last Retirement Board meeting.

Retiree	RetireDt	Age	Yrs	Days	DeptName	Position
<b>Atwood,Michael R</b>	<b>12/2/2015</b>	<b>58</b>	<b>38</b>	<b>215.24</b>	<b>City Light</b>	<b>Meter Reader</b>
Dalton,John E	12/2/2015	66	15	92.25	Public Util	Drainage&Wstwr Lead Wkr CII
Elliott,Steven D	12/2/2015	60	28	352.48	Public Util	Util Sysys Maint Tech
Evans,Linda D	11/27/2015	66	15	163.57	Vested	Admin Spec I-BU
Ferreira,Linda M	12/2/2015	59	16	105.58	Public Util	Mgmt Sysys Anlyst,Sr
Gilmore,Daniel	12/2/2015	58	20	139.32	City Light	Meter Elctn Working CC
Harrison,Nathan	11/6/2015	70	27	5.33	Sea Center	Security Ofcr,Sr
Mayo,Marc	11/4/2015	60	15	364.82	Law Dept	City Attorney,Asst
McGregor,Kate D	12/2/2015	58	31	300.04	SDOT	Signal Elctn V
Santos,Lizabeth L	12/2/2015	63	29	228.91	Public Util	Info Technol Prof B-BU
Spencer,Craig S	11/16/2015	56	10	111.18	Vested	HVAC Tech
Trahan,Raymond	11/10/2015	62	9	160.82	Parks Dept	Maint Laborer
Vanila,Tomasi	12/2/2015	51	17	212	Parks Dept	Cement Finisher-Parks Facilities
Vela,Steven P	11/19/2015	55	28	33.86	Parks Dept	Aquatic Cntr Coord
Walton-Sawadogo,Linda M	12/2/2015	59	34	101.28	City Light	Admin Staff Asst
Wilton,Cassandra L	12/2/2015	67	33	147.15	Police	Pol Comms Dispatcher III

For the month of December 2015: 79 new Members entered the System, 39 terminations, 16 Members retired in the System, 15 Members removed (\$15,165.97), 3 D/E Option, 3 F Option, and 1 over 60% benefit.

**Motion:**

Upon motion by Tim Burgess, seconded by Glen Lee, the Board of Administration approved the Administrative Consent Agenda. The motion passed unanimously (6-0).

- Minutes of the December 10, 2015 Board Meeting.
- Minutes of the December 18, 2015 Special Meeting of the Board.
- Ratification of Retirement Payroll, Office Payroll, Other Payments and Withdrawals
- Ratification of Service Retirements for the month of December 2015.

## **Introduction of ViTech/PAS**

Jeff Davis introduced Claire Foster, SCERS IT Manager, and Scott Larson, project manager from ViTech.

Mr. Davis stated that a goal this year is to give the Board more exposure to various staff in the operations department and get to know the work they do. Ms. Foster and Mr. Larson will speak briefly on where SCERS is with the Pension Administration System (PAS).

Ms. Foster reported that staff signed the contract with ViTech on November 17, 2015 and were fortunate to get the "A" team with ViTech.

Mr. Larson is the associate director at ViTech systems and has been with ViTech for 14 years. ViTech is a software development company based in New York with over 100 clients. They have done similar projects with a number of public pensions including pensions in Pennsylvania, Ohio State Teachers, Orange County, Ventura County and San Mateo County.

Mr. Larson stated that a lot of the same team that worked on the Orange County project is working on SCERS's PAS project. Orange County just went live last month.

Both Mr. Larson and Ms. Foster agreed that the teams have a good synergy.

Ms. Foster stated that they have completed an eight week series of meetings in which they reviewed every one of the requirements line by line. By March 31, 2016, they will complete the planning phase to finalize the scope of the project. At the end of the year, they will be rolling out the ECM of the system in which the member files will be imaged. The team is looking to fully implement the project by 2018.

## **Board of Administration Self-Evaluation**

Jean Becker stated that Robert Harvey will benchmark with other boards on the board self-evaluation process and they have asked Steve Boyd to give the Administrative Committee a snapshot on what he might recommend. They expect to review the information at the next Administrative Committee.

Ms. Becker said that the focus for the self-evaluation will be clarification of the business processes and decision making practices of the Board. She hoped the board self-evaluation process would be an efficient process.

Ms. Becker stated that the Administrative Committee also talked to staff about accomplishments and asked Ken Nakatsu to compile what has been addressed over the last few years. Ms. Becker said that the strategic plan dates back to when Tim Burgess was chair of the Board. SCERS staff developed the initiatives and work plans to address each of the four areas in the strategic plan.

The new strategic planning process would begin in late spring after the new Executive Director is hired.

## **SCERS's 2015 Accomplishments**

Jeff Davis reported on SCERS's accomplishments. He stated that the memo included in the board materials did not encompass everything that SCERS has accomplished over the last three years.

Mr. Davis reviewed some of the accomplishments of the last several years.

In the last three years the department has focused on reorganizing and restructuring, where needed, to increase capacity in customer service. Outdated and unstable databases were transitioned to more stable ones, i.e., from R-

base to Oracle so that staff could work more efficiently. Tools were streamlined for retirement calculations for accuracy and ease of use.

Changes were made to the Investment Team with the addition of a Chief Investment Officer and an Investment Analyst. An ESG policy was adopted by the board and the investment policy was revised. NEPC was selected as SCERS's new investment consultant.

Staff worked with a consultant on organizational culture. The work continues with an internal group called One Team that meets monthly for information sharing and to build the agendas for the monthly all staff meetings.

Mr. Davis stated that, of course, this is just a few of the accomplishments of staff and it is a testament to staff and their willingness to embrace change.

Mr. Burgess stated that it is exciting for him to come back to the board after two years and see great progress.

Susan Coskey said that she knows how hard Mr. Davis and his team have been working. She stated that Mr. Davis has been proactive and she wanted to thank him.

### **SCERS's Organizational Summary**

Steve Boyd, a consultant from MacDonald Boyd & Associates, reported to the Board on SCERS's organization.

Mr. Boyd stated that he has been working with Ken Nakatsu, Jeff Davis, Jason Malinowski and the SCERS's Extended Leadership Team (Tony Smith, Claire Foster, Cynthia Scheiderer, Deontrae Sherrard, and Nina Melencio) since July 2015. Mr. Boyd said he was surprised to learn that Tony Smith is the senior manager in the organization and he has only been with SCERS since 2010. This is a testament to the amount of turbulence that SCERS has been through.

Mr. Boyd said that there has been a request from the Board to update the strategic plan. This request comes at a critical moment due to the hiring of the new Executive Director.

He stated that the Board would want to have a leadership group that is strongly aligned with the Board. He added that most resets in organizations fail and 80% fail due to the lack of leadership constancy. Mr. Boyd said that the leadership staff has done a pretty remarkable job. To ensure continued progress on the organizational side that complements real progress on the technical side, Mr. Boyd stated that it is important that the organization have constancy going forward with alignment to values.

Mr. Boyd said that he focused on the people side and he prepared a proposal at the request of Ken Nakatsu.

Ms. Coskey thanked Mr. Boyd for his work and stated that she thought he could assist with the transition of the new Executive Director. She said that support would be helpful.

Ms. Becker asked Mr. Boyd to recap some of his observations and recommendations.

Mr. Boyd stated that he made note of a dynamic of change. The existing leadership recognizes that high quality of work and high standards in goal areas is important. There are measurable and accountable goals and metrics that are being worked on that front.

Mr. Boyd said that the Board will want to hire an Executive Director who is technically competent but also needs to focus on the fourth goal area around organizational culture. The Board will want to find someone who is a people developer and team builder who will continue the work going forward. He stated that the Board should focus on that during the interview process. He gave an example of candidates who look great on paper but may not be a good fit for the culture.

He said that there is a real commitment from the Extended Leadership Team to becoming more proactive in thinking about the organization and how it performs. Mr. Boyd stated that there is research on great places to work that says

performance is based on the level of “felt” trust. . The SCERS’s staff is building a strong culture of trust and performance.

### **Investment Staff Review of 2015 and Preview of 2016**

Jason Malinowski and Jill Johnson presented a review of investment initiatives completed in 2015 and a preview of the areas that investment staff is focused on for 2016.

***(10:04 a.m. – Lou Walter left the meeting)***

Mr. Malinowski finished the presentation by describing SCERS’s nine investment beliefs that are meant to guide investment decisions.

Mr. Malinowski said that NEPC will review 2015 performance at the Investment Committee meeting in February.

Mr. Burgess asked if there was a summary of manager fees. Mr. Malinowski responded that there was and he would provide it to Mr. Burgess.

### **Work Plan and Dashboard**

Jeff Davis reported on the Work Plan and Dashboard.

He stated that the Work Plan had no new items, although it did include the investment procedures which were completed at the end of the year.

On the dashboard, there has been significant progress on the outstanding backlog of retirement estimates. Turnaround time is high as staff get to the older retirement estimates.

Mr. Burgess asked if city employees who did not initially join the retirement system could still join the system and buy-back time.

Mr. Davis replied that those employees would only be exempt employees. Exempt employees can join the retirement system at any time. They are allowed to purchase back time at the time of separation or retirement.

Ms. Coskey asked if there was a legal reason that staff were only allowed to purchase back time at separation.

Mr. Davis replied that it was the current rule. Ms. Coskey said that the rule was making the retirement system less accessible and wanted to know if there was a reason that the rule could not be changed.

Mr. Davis stated that what employees are purchasing is the actuarial cost because it’s the present value of a future benefit. There are other buyback types based on missed contributions based on the dollar amount an employee would have paid plus interest. It is a missed opportunity by not having the money invested in the market.

Mr. Davis stated that he would discuss the issue with both the actuary and legal counsel.

Ms. Coskey asked what would be the opportunity to change the policy.

Mike Monaco replied that rules are embodied in the city’s municipal code. There is no legal reason that could not be changed to something more lenient and/or liberal for buy-backs, i.e., first two years approach.

Mr. Monaco said that the question is what the actuaries might think about how much risk the system is taking at buying back at relatively lower costs. Is there some tipping point built into this and not giving too much opportunity by going retroactively for a large benefit for some small amount of retroactive payment. We will need information from the actuaries and it would require ordinances revisions to make the change.

Mr. Burgess stated he agreed with Ms. Coskey and asked staff to look at it.

**Executive Session**

The Board of Directors entered into Executive Session at 10:22 a.m. to discuss a personnel issue with Steve Boyd.

Executive Session was closed and the Board of Administration meeting re-entered regular session at 10:35 a.m.

**Adjourn Meeting**

The meeting was adjourned at 10:35 a.m.



Seattle City Employees' Retirement System  
Board of Administration Meeting

Seattle City Hall, Boards and Commissions Room, 600 Fourth Avenue, Seattle  
(206) 386-1293

**Board of Administration Members:**

Councilmember Tim Burgess, Chair  
Glen Lee  
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**SCERS Staff:**

Ken Nakatsu, Interim Executive Director  
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Deontrae Sherrard, Principal Accountant  
Nina Melencio, Office Administrator

**Legal:**

Carlton Seu, Seattle City Attorney's Office  
Michael Ryan, Seattle City Attorney's Office  
Mike Monaco, Song Mondress Law Firm

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**Minutes of Thursday, February 11, 2016**

**Board Members Present:** Tim Burgess, Glen Lee, Jean Becker (arrived at 9:10 a.m.), Sherri Crawford, Susan Coskey (via conference call).

**SCERS Staff Present:** Ken Nakatsu, Jeff Davis, Jason Malinowski, Tony Smith, Jill Johnson, Cecelia Chen, Cynthia Scheiderer, Nina Melencio

**Others Present:** Carlton Seu (Seattle City Attorney's Office), Michael Ryan (Seattle City Attorney's Office), David Hennes (CBO), Paul Olson (Seattle City Attorney's Office), George Emerson (FAS), Nate Van Duzer (CM Burgess's Office)

**Call to Order**

Tim Burgess, Committee Chair, called the meeting to order at 9:03 a.m.

**Public Comment:**

There was no public comment.

**Administrative Consent Agenda**

Provided in the Retirement board packet were the minutes from the January 28, 2016 Retirement Board regular meeting and the February 2, 2016 Special Meeting of the Board.

The following items represent normal expenses and nothing extraordinary:

<b>Service</b>	\$12,702,877.52
<b>Beneficiary</b>	\$ 919,717.56
<b>Disability</b>	\$ <u>75,760.66</u>
<b>Pension Payroll – PPE January 2016</b>	\$13,698,355.74
<b>Office Payroll – PPE January 12 and 26, 2016</b>	\$ 184,105.49



**Vouchers Processed – January 2016**

- Expert and Consultant Services \$ 12,553.01
- Investment Management Fees \$ 122,730.08
- Interdepartmental Charges \$ 201.84
- Miscellaneous \$ 121,681.50

**Immediate Withdrawals of Contributions for the month of January 2016:**

<b>MEMBER</b>	<b>Department Name</b>	<b>Position</b>
Buchanan, Marlette	Parks	Rec Prgm Coord
Campaz, Mario D	InfoTech	Info Technol Prof C-BU
Elliott, Steven	SPU	Util Sysys Maint Tech
Elliott, Steven	SPU	Util Sysys Maint Tech
Fearnhough, Michael B	Police	StratAdvst2,CL&PS
Gordon, Seth	Library	Library Assoc I
Harvey, Briahn D	Police	Pol Comms Dispatcher I
Hillard, Tracy M	HumanSvc	StratAdvst3,Exempt
Looney, John J	City Light	Lnwkr
McGraw, Peter R	Neighbrhd	StratAdvsr1,CSPI&P
Momassie, Cecil W	Sea Ctr	Security Ofcr
Moyer, Victoria	Fire	Mgmt Sysys Anlyst Supv
Nutter, Brian G	City Light	Lnwkr
Paksangkanay, Hongthong	Library	Custodian
Roe, Elaine M	HumanSvc	Counslr
Roe, Elaine M	HumanSvc	Counslr
Saeyang, David S	Library	Bldg Engr-Libr
Sajor, Tina M	HumanSvc	Admin Spec I-BU
Truong, Phuong Anh	Library	Page
Ward, Latifa	Library	Security Ofcr - Library
<b>White, Diana J</b>	<b>Police</b>	<b>Identification Data Spec</b>
Wong, Kam M	Parks	Aquarium Biologist 1

**Withdrawals for a total of: \$474,536.62**

Bold entries (if any) above indicate refund payment made to beneficiary of a member dying while in active status

c. Ratification of Service Retirements

The following list represents the retirements that have been processed since the last Retirement Board meeting.

<b>Retiree</b>	<b>RetireDt</b>	<b>Age</b>	<b>Yrs</b>	<b>Days</b>	<b>DeptName</b>	<b>Position</b>
Alley-Barnes,Royal	12/30/2015	69	32	266.41	Arts&Cult	Manager2,General Govt
Burstein,Florence K	12/14/2015	63	7	254.24	Vested	StratAdvsr1,General Govt
Hall,Jerry D	12/20/2015	57	35	22.92	City Light	Mat Suplr-Asg Leo/Pdm/Hb

Jackson, James E	12/1/2015	57	12	45.09	FAS	Animal Contrl Ofcr II
Marshall, Kevin W	12/30/2015	58	16	110.3	City Light	Mech Engr, Sr
Matson, Kenneth A	12/3/2015	59	39	25.17	FAS	Warehouser, Sr-BU
Olds, Carmen M	12/30/2015	59	24	8.22	Parks Dept	Rec Attendant
Tijerina, Alonzo	12/18/2015	64	6	273.75	Vested	
Williams, Yolande E	12/4/2015	63	16	22.37	Muni Court	Executive3

For the month of January 2016: 70 new Members entered the System, 16 terminations, 9 Members retired in the System, 10 Members removed (\$14,423.70), 3 D/E Option, 6 F Option, and 1 over 60% benefit.

**Motion:** Upon motion by Tim Burgess, seconded by Glen Lee, the Board of Administration approved the Administrative Consent Agenda. The motion passed unanimously (5-0).

- Minutes of the January 28, 2016 Board Meeting.
- Minutes of the February 2, 2016 Special Meeting of the Board.
- Ratification of Retirement Payroll, Office Payroll, Other Payments and Withdrawals.
- Ratification of Service Retirements for the Month of January 2016.

### **Member Services Update**

Cynthia Scheiderer, Member Services Manager, provided an update on the Member Services division of SCERS. She stated she decided to accept an offer to join the department after she witnessed the commitment of the staff. There have been significant proactive steps for success and improved services for our members.

Ms. Scheiderer stated that the leadership and everyone on the member services team have a commitment to putting members first in all the business decisions. It is hard work to do that and build the process, tools, and culture.

She said that staff and members are seeing improvement already. Priority has been given to benefit estimates and bringing service levels where we want it to be. The goal is to be under 100 benefit estimates at any given time. As of this morning, staff was at 107 open benefits estimates with the oldest estimate at eight weeks. The average estimate is open for three weeks.

Ms. Scheiderer stated that this needs to be done in a sustainable way. The service model is intended to have three outcomes:

1. Improving time of the first response. The member needs to be aware of the status of their request.
2. Improving time to resolution in a timely way.
3. Clarifying service boundaries.

For this service model, a tiered model of support has been introduced. For the tier 1, two staff members are dedicated to intake and sometimes provide a resolution on first contact with a member. Tier 2 is for calculations, consultations, appointments, and highly individualized service. Tier 3 is if there is something exceptional that requires additional service. Staff at Tier 3 handles those without creating a bottleneck at the other tiers.

Another initiative is skill building. We are taking all member services staff through training this year. It is the technical skills, customer, analytical, and critical skills. Everyone is going through it together no matter how long they have been with the staff.

Our last initiative is a knowledge base. This is one tool or methodology that can accomplish a great deal for us. There is a trend for knowledge based support. Research shows customers are more loyal and satisfied if they feel they have learned something. Members need to learn more about their benefits. The knowledge base is going to help us give that learning interaction.

**(9:10 a.m. Jean Becker arrived)**

Ms. Scheiderer stated that member services' goal is to honor the public service of employees by providing them great service when they retire.

### **Executive Session**

The Board of Directors entered into Executive Session at 9:13 a.m. for approximately 15 minutes to discuss a personnel matter.

Executive Session was closed and the Board of Administration meeting re-entered regular session at 9:28 a.m...

### **SCERS II – David Hennes**

David Hennes of the City Budget Office reported on the proposed new SCERS II retirement plan which reduces costs and will become effective for new City employees hired after January 2017.

Mr. Hennes reviewed the differences between the two plans and stated that the City will continue to make unfunded liability contributions for all employees' payroll.

He stated that SCERS II reduced the normal costs (percentage of salary) from 15.8% to 11.9% and that the major way the city is reducing the cost is by reducing the multiplier (earned benefit per year of service). The multiplier was reduced from 2% for SCERS I to 1.75% to SCERS II.

Mr. Hennes said another difference with the new plan is that the normal retirement age has been changed. With SCERS I, the normal retirement age is when the member's age plus years of service equals "rule of 80". With SCERS II, the member's age plus years of service must equal the "rule of 85".

The employee contribution rate will be reduced from 10.03% for current employees to 7% for new employees hired after January 2017. The employer contribution rate will be reduced from 5.76% to 4.9% for new employees.

Susan Coskey stated that there were a lot of people who worked hard on SCERS II. The coalition of unions has agreed to SCERS II. Individual unions are voting on it.

Ken Nakatsu said that Mr. Davis, Mike Monaco and he were working on the implementing legislation and are trying to pursue on the two tiers as well. Mr. Nakatsu stated that purely to incorporate the changes would be complicated. It is also important to clean up what is currently there.

Mr. Monaco stated that there are parts of the legislation that we need to change to implement SCERS II that are touching on some ambiguous or outdated practices.

Sherri Crawford asked if there is some language that allows for new hires in one of the other plans to have portability.

Mr. Hennes replied that there was.

### **Administrative Committee Report – January 28, 2016**

Jean Becker reported on the January 28, 2016 Administrative Committee meeting. She stated that committee members have been working on the board self-evaluation process. They will have something for the board at the March board meeting.

Steve Boyd is working on a proposal for strategic planning.

## **Investment Committee Report – January 28, 2016**

Tony Smith reported on the January 28, 2016 Investment Committee meeting.

There was discussion on the Monthly Portfolio Monitor. The market value at the end of December was \$2.3B with an estimated funded ratio of 64%. Mr. Smith stated that the market value of \$2.3B was about even with where SCERS ended in 2014. Performance for 2015 was flat. Mr. Smith noted that the funding ratio for 2014 was 67% compared to where SCERS ended in 2015 at 64%.

Don Stracke of NEPC presented on 2016 Actions and Capital Market Assumptions. Overall, Mr. Stracke remarked that monetary policies remained accommodative and that there were challenges in the emerging markets.

Jason Malinowski gave an update on the infrastructure search.

The Investment Advisory Committee will attend the February Investment Committee. NEPC will present the ESG update from their reports from last year.

## **Executive Director Report**

Mr. Nakatsu stated that Jean Becker's active member seat is open this year. The Notification of Election will be posted after the March board meeting to inform members of the qualifications and the timelines.

Mr. Davis stated that there have been quite a few SCERS staff engaged in the past month with ViTech consultants working on the Pension Administration System (PAS). They are going into great detail for the system requirements. The meetings are going real well.

This week, auditors for CliftonLarson are on site doing preliminary work. They will be back in April to do more in-depth view of processes. We are targeting June or July for the final review of the 2015 audit.

## **Adjourn Meeting**

**Motion:** Upon motion by Tim Burgess, seconded by Glen Lee, the Board of Administration voted to adjourn the meeting at 10:00 a.m. The motion passed unanimously (5-0).



**Seattle City Employees' Retirement System  
Board of Administration Meeting  
Seattle City Hall, Boards and Commissions Room, 600 Fourth Avenue, Seattle  
(206) 386-1293**

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**Minutes, Thursday, March 10, 2016**

- Board Members Present:** Tim Burgess, Glen Lee, Jean Becker, Lou Walter (conference call), Robert Harvey, Jr., Sherri Crawford, Susan Coskey (arrived at 9:10 a.m.)
- SCERS Staff Present:** Ken Nakatsu, Jeff Davis, Jason Malinowski, Tony Smith, Jill Johnson, Cecelia Chen, Nina Melencio
- Others Present:** Carlton Seu (Seattle Attorney's Office), Mike Monaco (Song Mondress Law Firm), Kate Moore (SDHR), James Warren (SDOT), Heather Day (Friends of the Earth), George Emerson (FAS), Tom Kirn (FAS), Nate Van Duzer (Office of CM Burgess)

**Call to Order**

Tim Burgess, Committee Chair, called the meeting to order at 9:00 a.m.

**Public Comment:**

There was public comment.

Heather Day stated that she works for the Community Alliance for Global Justice and is speaking today on behalf of Friends of the Earth who have member groups in 75 countries.

Ms. Day said that the issue she wanted to bring attention to was palm oil which is in about half of the processed food on shelves and is the cause of rainforest destruction today.

Dimensional Fund Advisors (DFA) is one of the largest holders of palm oil growers and traders in the world and they also manage SCERS's funds. She stated that DFA's rapid expansion is leading to massive rainforest destruction. Sixteen million acres of forest are lost per year.

Ms. Day said that SCERS has a unique opportunity to engage in the solution based on Friends of the Earth's Four Pillars of Responsibility for Deforestation-Free Investment:

1. Ask DFA to disclosure their exposure to deforestation through palm oil.
2. Commit to stopping deforestation.
3. Exclude from our investments companies that fail to meet the standards of this commitment.
4. Repair damage by supporting companies that restore ecological damage.

## Administrative Consent Agenda

Provided in the Retirement board packet were the minutes from the February 11, 2016 Retirement Board regular meeting.

The following items represent normal expenses and nothing extraordinary:

<b>Service</b>	\$12,823,875.96
<b>Beneficiary</b>	\$ 921,508.34
<b>Disability</b>	\$ <u>76,605.21</u>
<b>Pension Payroll – PPE February 2016</b>	\$13,821,989.51
 <b>Office Payroll – PPE February 9 and 23, 2016</b>	 \$ 194,567.27
 <b>Vouchers Processed – February 2016</b>	
• Expert and Consultant Services	\$ 381,952.65
• Investment Management Fees	\$ 59,418.31
• Interdepartmental Charges	\$ 127,016.14
• Miscellaneous	\$ 42,649.59

### **Immediate Withdrawals of Contributions for the month of February 2016:**

<b>MEMBER</b>	<b>Dept</b>	<b>Position</b>
<b>Aldridge, Anthony</b>	<b>DPD</b>	<b>Admin Spec II</b>
Bennett, Ashley A	City Light	Pwr Analyst
Hall, Jerry D.	City Light	Mat Suplr-Asg Leo/Pdm/Hb
Hall, Jerry D.	City Light	Mat Suplr-Asg Leo/Pdm/Hb
Hernandez, Kellie	ESD	Warehouser, Sr
Hicklin, Anita A	Police	Latent Print Examiner
Hutson, Willie D.	Police	Police Comms Dispatcher I
Jordan, Lisa A.	Library	Page
Video, Frank	Legislative	Legislative Assistant
Dewalt, Malachi L.	Public Utility	Laborer
Harber, Jason M.	Library	Events Svcs Spec
Loretta, Donna C.	Library	Librarian
Medlock, Jonathan P.	City Light	Engineering Aide

**Withdrawals for a total of: \$461,646.73**

Bold entries (if any) above indicate refund payment made to beneficiary of a member dying while in active status

### c. Ratification of Service Retirements

The following list represents the retirements that have been processed since the last Retirement Board meeting.

<b>Retiree</b>	<b>RetireDt</b>	<b>Age</b>	<b>Years</b>	<b>Days</b>	<b>DeptName</b>	<b>Position</b>
Anderson, Jacqueliene P	1/26/2016	66	10	337.21	FAS	Accountant, Prin
Andrews, Denise M	1/12/2016	57	11	327.37	Vested	Manager2, Utils
Barton, Peter T	1/9/2016	64	10	43.96	City Light	Civil Engr, Sr
Beaumont, Victoria G	1/13/2016	61	36	182.16	PublicUtil	StratAdvsr2, General Govt
Carr, Michelle L	1/13/2016	72	15	295.91	Police	Identification Data Spec
Chilstrom, Hariana C	12/16/2015	68	9	259.18	Parks Dept	Naturalist



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Clark,Marjorie	1/13/2016	66	9	338.49	LegCty Cncl	Admin Spec II
Dickinson,James S	1/20/2016	62	22	143.44	City Light	Mat Suplr-Asg Leo/Pdm/Hb
Drain,Dianne M	2/27/2016	58	22	236.64	Vested	Parking Enf Ofcr
Entwisle,Loretta J	1/27/2016	67	24	8.22	Police	Admin Spec II-BU
Fox,Frankie L	1/27/2016	58	34	190.89	FIRE	Admin Spec III-BU
Godden,Jean H	1/1/2016	84	12	0.96	LegCty Cncl	Councilmember
Goodlett,Martha M	1/4/2016	58	9	87.19	Vested	Plng&Dev Spec II
Grohs,Kenneth A	1/6/2016	62	19	355.21	City Light	Info Technol Prof A,Exempt
Hildahl,Dave R	1/15/2016	53	24	31.29	PublicUtil	Civil Engrng Spec,Assoc
Hill,Lynn Y	1/5/2016	57	18	119.75	Vested	Civil Engr,Assoc
Holt,Peggy L	1/27/2016	62	16	114.29	FIRE	Admin Spec III-BU
Horne,Tom	1/27/2016	62	24	211.17	Library	Head of Techl&Coll Svcs
Kaiser,Barry H	1/13/2016	62	31	353.82	City Light	Line C CC
Kennedy,Beverly A	1/13/2016	62	7	41.95	SDCI	Info Technol Prof B-BU
Kimbrough,Donna L	1/9/2016	67	4	166	Vested	
Lea,Richard G	1/27/2016	62	10	276.6	PublicUtil	Truck Drvr,Heavy
Licata,Nicholas J	1/1/2016	68	17	364.58	Leg CtyCncl	Councilmember
Meredith,Richard L	1/1/2016	55	19	4.19	Vested	Manager3,Engrng&Plans Rev
Modrell,Patrick H	1/27/2016	67	28	238.5	City Light	Prot&Cntrl Elctn II
Mueller,Karen J	1/7/2016	64	27	98.07	PublicUtil	Info Technol Prof C-BU
Munger,Lorie J	1/27/2016	55	34	155.02	SDOT	Manager2,Engrng&Plans Rev
Nguyen,Vien T	1/2/2016	65	11	197.4	Library	Janitor-Library
Nishi,Rick L	1/27/2016	58	30	55.06	Parks Dept	Manager3,Engrng&Plans Rev
Oliver,Steven F	1/27/2016	62	10	153.11	PublicUtil	Util Act Rep Supv II
Phan,Slade	1/6/2016	68	10	43.07	Parks Dept	Laborer
Rasmussen,Thomas M	1/1/2016	68	29	63.98	LegCty Cncl	Councilmember
Rmah,Blot	1/8/2016	62	35	309.22	City Light	Meter Elctn Working CC
Scannell,Joel F	1/7/2016	67	14	233.55	Library	Library Assoc II
Shiferaw,Muluwork J	1/1/2016	61	28	177.9	KC	ESD
Sprinkle,Helen	1/27/2016	56	26	359.69	PublicUtil	Util Act Rep II
Sugimura,Diane M	1/5/2016	69	37	119.22	Exec Dept	Executive3 *
Thomson,Jennifer E	1/8/2016	66	9	69.31	Parks Dept	Admin Support Asst-BU
Trolio,Thomas J	1/27/2016	66	19	182.55	Human Svcs	Human Svcs Prgm Supv,Sr
Wilkins,Robert L	1/13/2016	58	32	39.68	Parks Dept	Rec Cntr Coord

For the month of February 2016: 58 new Members entered the System, 40 terminations, 40 Members retired in the System, 9 Members removed (\$15,813.91), 3 D/E Option, 1 F Option, and 1 over 60% benefit.

**Motion:** Upon motion by Tim Burgess, seconded by Robert Harvey, Jr., the Board of Administration accepted the Administrative Consent Agenda. The motion was passed unanimously (6-0).

### **Investment Advisory Committee (IAC) 2015 Annual Report**

Joseph Boateng, IAC Chair, presented the 2015 IAC Annual Report.

Mr. Boateng stated that the IAC met four times in 2015 and IAC members provided input into SCERS's revised investment policy, ESG positive action strategy, and the revised asset liability study. The IAC continues to support action in that direction by integrating ESG issues into the investment process.

Mr. Boateng said that a key revision was changing the assumed rate of return from 7.75% to 7.5% which is in line with SCERS's peer groups. Mr. Boateng said that the plan is being positioned for better performance and the IAC supports the actions taken thus far.

2016 IAC recommendations:

1. SCERS should continue to evaluate the impact of achieving a return that is likely in the near term, to be less than the assumed rate of return (7.5% annualized) given the low return environment that is being experienced globally.
2. SCERS should continue to study items such as payments to vendors and compensation of plan fiduciaries (investment managers) for efficiencies, especially in a lower return environment.
3. SCERS should continue to progress in its positive action strategy regarding ESG issues including corporate engagement, integrating climate risk into SCERS's investment process and pursuing, as appropriate, investments that are expected to produce investment results consistent with SCERS's fiduciary responsibility to its members.
4. SCERS should continue to explore ways in which SCERS can extract more value from the services offered by consultants and other vendors.
5. SCERS should change the reporting date of the IAC's annual report to March 31. The end of January doesn't allow comprehensive review of full calendar year performance.

Mr. Walter asked if the IAC was recommending delaying the annual report so that 4<sup>th</sup> quarter can be captured.

Mr. Boateng replied that that was the IAC's recommendation. The IAC wants to be able to capture the entire year (January 1-December 31). The current annual report looks at performance through September 30<sup>th</sup> and the Board will be able to look at the true value if the annual report were delayed.

Jeff Davis stated that rather than changing the fiscal year, staff has had some conversation with CliftonLarsonAllen to capture liquid assets on part of the year end close.

Jason Malinowski added that the RCW requires that the IAC's Annual Report be delivered by January 31<sup>st</sup>.

Mr. Burgess asked if the annual report was regulated by state statute.

Mike Monaco replied that the state statute does regulate the annual report, although we can look at a separate report that is more substantive on performance. He stated that SCERS would be in compliance with what is required by statute, but also have a more full report on these issues.

Mr. Nakatsu confirmed that the letter of the law does require the annual report to be submitted by January 31<sup>st</sup>.





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Mr. Monaco discussed having an initial report that was more abbreviated with a follow-up after January 31<sup>st</sup>.

Mr. Nakatsu stated that the advisory committee has been exceptionally helpful to the Board and the staff, collectively and individually. SCERS relies on IAC members Mr. Boateng, Dwight McRae, and Alan Hess. They are a valuable asset to SCERS.

Mr. Nakatsu said that he concurs with the concerns raised by the IAC. The experience study is completed every four years and the next one is due in 2018. That would be an appropriate time to review the expected rate of return in a 30 year period of time.

Robert Harvey, Jr. stated that he suggested SCERS begin with the budget process to look at controlling expenses of fiduciaries.

**Motion:** Upon motion by Tim Burgess, seconded by Jean Becker, the Board of Administration accepted the Investment Advisory Committee 2015 Annual Report. The motion passed unanimously (7-0).

### **Executive Director Recruitment**

#### **Executive Session**

The Board of Directors entered into Executive Session at 9:17 a.m. for appropriately 30 minutes to discuss a personnel matter for recruitment of SCERS's Executive Director.

Executive Session was closed and the Board of Administration meeting re-entered regular session at 9:40 a.m.

**Motion:** Upon motion by Tim Burgess, seconded by Susan Coskey, the Board of Administration authorized an offer of employment for the Seattle City Employees' Retirement System Executive Director position at the Executive 4 salary range (\$135,490 on the low-end and \$223,562 on the high-end) contingent upon completion of background checks to the Board's satisfaction. The motion passed unanimously (7-0).

### **ESG Update**

Jason Malinowski and Jill Johnson presented the ESG Update for first quarter 2016.

Mr. Malinowski first reviewed the NEPC report presented at the February Investment Committee meeting. He stated that NEPC remains supportive of SCERS's positive strategies and continues to be supportive of integrating ESG in the decision-making process rather than going the "impact investing" route.

Ms. Johnson reported that staff has been monitoring industry events. A senate bill was passed in California that required CalSTRS and CalPERS to divest from thermal coal by 2017 unless their boards determine that it is inconsistent with their fiduciary responsibilities. The bill also provides indemnification of the boards.

In February 2016, CalSTRS stated that they will divest from four thermal coal companies (Cloud Peak Energy, Hallador Energy Company, Peabody Energy Corporation, and Westmoreland Coal Company) which is 0.0008% of their \$180B plan (\$1.5M). SCERS does not have any direct investments in these four companies.

CalPERS is pursuing engagement with thermal coal companies rather than divestment at this time and have updated their Investment Policy regarding divestment requests to address situations such as that made in SB 185.

In December 2015, San Francisco City and County Employees' Retirement System approved a motion to "prudently divest" from thermal coal and "prudently reinvest" in renewables. Previously, the board approved a motion to invest \$100M (0.5% of total assets) in an equity fossil fuel free index fund. These motions have not been fully implemented.

Mr. Malinowski reviewed the membership organization activity for the first quarter.

In January 2016, Mr. Malinowski attended three events in New York City:

1. Chief Investment Officer round table which was attended by 10 large US public pensions plans with Seattle and San Francisco being the smallest of the plans. Mr. Malinowski stated there was an interesting discussion on how most plans were integrating ESG in their decision making process. A couple of attendees including one pension plan, NY State, were looking at low carbon strategies. They feel that those fossil fuel based companies will underperform. Renewable infrastructure is the most attractive area for sustainability as opposed to clean tech or green bonds. One comment was that there is a lot of competition for wind and solar types of investments.
2. INCR Semiannual Meeting included a panel discussion on the Department of Labor (DOL) guidance on ESG. DOL has essentially reverted to a previous guidance that they had provided in the late 90s. If ESG impacts have economic merits, it can and should be considered. Previously there was an implied higher standard. SCERS has been following that perspective all along. Carbon foot printing was also discussed. It is an analysis to understand the carbon footprint that is created based on a company's investments.
3. Investor Summit on Climate Risk occurred at the United Nations. Speakers included Ban Ki-Moon (UN Secretary-General), Christiana Figueres (Executive Secretary, UN Framework Convention on Climate Change), Michael Bloomberg, and Al Gore. Every speaker mentioned that having a carbon price is essential to combatting climate change. Investments in renewables are dramatically increasing. Emerging countries are where the climate change battle will be fought, particularly India. India's only natural energy resource is coal. They are unable to finance renewables. There was a discussion on how investors can change course of action in India.

Ms. Johnson stated that she participates in two INCR monthly working groups: Carbon Asset Risk Working Group and the Policy Working Group. The Carbon Asset Risk Working Group focuses on tactics for engaging fossil fuel energy companies. The Policy Working Group focuses on engaging federal and state policy makers on key climate, energy, and sustainability issues.

Mr. Malinowski said that going forward they will identify avenues to follow engagement or positive action.

Since February 2015, SCERS staff has participated in 48 events, meetings and calls devoted to ESG to stay abreast in the marketplace and learn best practices.

Mr. Malinowski stated that Mercer was engaged to produce an ESG-focused report on Brookfield Infrastructure Fund III which was recommended by the Investment Committee in February and is now under consideration by the Board on today's agenda for approval.

Staff and NEPC are recommending a commitment of up to \$15M to Brookfield Infrastructure III based on economic benefits. The strategy is also expected to have a 35% allocation to renewable power investments, mostly in hydroelectric facilities and wind farms.

Mr. Harvey asked about the previous public comment on palm oil. He asked if there was anything that needed to be done.



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Mr. Malinowski replied that Friends of the Earth have not filed an ESG request which is required by SCERS's ESG policy. Staff and representatives from Friends of the Earth have had a number of conversations. Friends of the Earth are concerned with DFA. SCERS is invested in DFA's international small cap. The palm oil issue is relevant to SE Asia and SCERS does not have exposure to that strategy in DFA.

Mr. Malinowski said that DFA has signed on to the UN Principles of Responsible investments which have certain requirements. If DFA is not in compliance, SCERS is open to approaching them about those issues.

Ken Nakatsu stated that staff informed Friends of the Earth about the requirements of the ESG policy. At this point, they have only chosen to come to the Board to present their concerns.

The ESG policy is up for review this year at which time it can be reviewed for any changes that may be needed.

Mike Monaco stated that the way the ESG policy is written, SCERS would need to receive a proposal that contains reasonable analysis and the proposed change would need to fit into the Board's fiduciary responsibility (tell us how we can do this within our fiduciary responsibility and then we will look at it). A written request without reasonable analysis would not be sufficient.

Mr. Burgess asked Mr. Malinowski to explain the Market Performance table that is on page 20 of the documents.

Mr. Malinowski replied that the table was added as a request of then Board Chair Nick Licata who wanted staff to compare performance of the broad US equity markets in various time periods to that if all energy companies were excluded or all fossil fuel companies were excluded. The table also looks at volatility if these sectors were to be excluded.

Ms. Becker asked if these results were not risk adjusted. Mr. Malinowski replied that she was correct since return and risk are reported separately.

Mr. Nakatsu said that when NEPC and staff reported last month, there were several other reasons given about why divestiture was not appropriate.

Susan Coskey asked to help her understand the table and staff's conclusions.

Mr. Malinowski stated that the table is showing what the performance would have been if SCERS had excluded energy and fossil fuels. It shows that SCERS would have done better over more recent periods of time if it had divested from energy. Over the long period (since 1990), return would have been the same but divesting would have led to higher risk.

Ms. Coskey asked if the performance table showing the strong recent performance of a fossil fuel divested portfolio would be the basis for an investment action.

Mr. Malinowski responded that it would not as past performance is not an indicator of future results, particularly over such short time periods.

There was discussion amongst the Board members and a request that the performance table be removed from future ESG updates.

Mr. Harvey added that whenever SCERS makes a decision on past performance that is when SCERS is in trouble.

### Administrative Committee Report –February 25, 2016

Jean Becker reported on the February 25, 2016 Administrative Committee (AC) meeting.

Ms. Becker stated that the AC discussed the Board of Administration self-evaluation survey. She said the AC has a good survey instrument which covers a fair amount. A consultant, Steve Boyd of MacDonald Boyd, has been retained to administer the survey, collect data, and evaluate the responses. Mr. Boyd will report the results at an Administrative Committee meeting and do follow-up.

Ms. Coskey asked what the purpose of the survey was. Ms. Becker replied that it is to survey board members on how well the board manages its business processes. The survey is not about any individual board member or individual performance. It is about the work the board does as a whole.

*(10:18 – Sherri Crawford left the meeting.)*

### Investment Committee Report – February 25, 2016

Mr. Malinowski stated that performance in January 2016 was negative largely due to concerns of a slowdown in economic growth. The year to date performance is expected to be down around 2%.

#### Infrastructure Manager Selection

Mr. Malinowski spoke to the Infrastructure Manager selection recommendation. He said that staff and NEPC were recommending a commitment of up to \$15M to Brookfield Infrastructure III. It is a closed end fund that is geographically and sector diversified. SCERS had previously committed to a Brookfield Real Estate fund. Included in the board packet is a conflicts of interest form that K&L Gates has helped staff develop. This form will be included on an ongoing basis when staff and NEPC are recommending managers.

**Motion:** Upon motion of Robert Harvey, Jr. seconded by Glen Lee, the Board of Administration accepted the Investment Committee's recommendation to commit up to \$15 million in Brookfield Infrastructure Fund III, pending satisfactory legal review. The motion passed unanimously (6-0).

#### BlackRock Fund of Hedge Funds Update

Mr. Malinowski stated that SCERS has a \$60M investment in Black Rock's fund of hedge funds strategy. Staff and NEPC are recommending a full redemption due to the two co-heads of the fund of hedge funds team leaving BlackRock. One of the co-heads was a co-founder, portfolio manager and chief investment officer.

Mr. Malinowski said that staff would redeem on June 30, 2016.

Mr. Burgess asked what happens to the funds after redemption.

Mr. Malinowski responded that SCERS will probably get the cash sometime in August 2016. George Emerson and Mr. Malinowski have been looking at Diversifying Strategies managers and they are hoping to come back with a recommendation by the end of the summer. In the meantime, the overlay program will be used to invest cash and maintain the same portfolio risk.



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Mr. Lee commented that the overlay program has proven to be a helpful device for SCERS.

**Motion:** Upon motion of Glen Lee, seconded by Lou Walter, the Board of Administration accepted the Investment Committee's recommendation to redeem SCERS's full investment in the BlackRock Fund of Hedge Funds Strategy. The motion passed unanimously (6-0).

**Executive Director Report**

Mr. Nakatsu stated that after today's board meeting, the trustee election notice will be added to the SCERS website and a notice will be on member annual statements. The candidate filing period will begin after the April board meeting and be open for two weeks. The election will occur in May with the certified results presented to the board at its June 9, 2016 meeting.

Mr. Davis stated that staff and ViTech have completed the review of the 1,300 requirements for the Pension Administration System (PAS). Next month they will begin locking down the schedule for the next three years.

Mr. Davis said staff had their first site visit for the annual audit from CliftonLarsonAllen. Representatives from CliftonLarsonAllen will be back in April 2016 and staff is on track for them to present the results of the audit to the Board at the June 2016 board meeting.

He stated that the member services department reached a milestone; they have 67 open requests for retirement estimate. They have never been down to double digits before. Also, turnaround time is down to three (3) weeks. Mr. Davis stated that staff is doing a great job.

There is nothing new in the Work Plan.

Mr. Malinowski stated that the Dashboard has been updated with information for investments through the end of the year. The 2015 performance was approximately flat which is consistent with SCERS's peer group. But it is under the assumed rate of return.

**Adjourn Meeting** – The meeting was adjourned at 10:30 a.m.



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**Minutes, Thursday, April 14, 2016**

**Board Members present:** Tim Burgess, Glen Lee, Jean Becker, Lou Walter, Robert Harvey, Jr. Sherri Crawford, Susan Coskey

**SCERS Staff present:** Ken Nakatsu, Jeff Davis, Jason Malinowski, Tony Smith, Jill Johnson, Cecelia Chen, Nina Melencio

**Others present:** Carlton Seu (City of Seattle Attorney's Office), Michael Ryan (City of Seattle Attorney's Office), Mike Monaco (Song Mondress Law Firm), Kate Moore (SDHR), Bill Roach, Lynn Fitz-Hugh (350 Seattle), Tom Kirn (FAS), George Emerson (FAS), Nate Van Duzer (Office of CM Burgess), Eric Sund (LEG)

**Call to Order**

Tim Burgess, Committee Chair, called the meeting to order at 9:00 a.m.

**Public Comment:**

Mr. Burgess asked if there was public comment. There was public comment.

Lynn Fitz-Hugh stated she was at the board meeting to thank the Board for investing \$15M in the Brookfield Infrastructure Fund. She stated that she is excited for a better future that the investment represents.

Ms. Fitz-Hugh also said that as a member of 350 Seattle, she is still requesting that the Board divest from fossil fuels.

***(9:02 a.m. - Glen Lee arrived)***

Bill Roach stated that he is a 45 year member of the SCERS retirement system and a grandfather. Mr. Roach said he has come before the Board on numerous occasions to ask the Board to consider the impact of climate change on the SCERS portfolio. He was very pleased that the Board had responded with a \$15M investment in Brookfield Infrastructure Fund III focusing on renewable energy development. He said that it was a very important first step, but he hoped there were more steps to come.

Mr. Roach stated that renewable energy is becoming cheaper to produce and that it is a technology, not a fuel.

As a grandfather, Mr. Roach asked the Board to please keep investing to respond to climate change. He also asked the Board to be mindful of their fiduciary responsibility and to invest where there is positive and sustainable growth.

## Administrative Consent Agenda

Provided in the Retirement board packet were the minutes from the March 10, 2016 Retirement Board regular meeting.

The following items represent normal expenses and nothing extraordinary:

<b>Service</b>	\$12,859,013.13
<b>Beneficiary</b>	\$ 915,091.78
<b>Disability</b>	\$ <u>76,605.21</u>
<b>Pension Payroll – PPE March 2016</b>	\$13,850,710.12
<b>Office Payroll – PPE March 8 and 22, 2016</b>	\$ 197,757.18
<b>Vouchers Processed – March 2016</b>	
• Expert and Consultant Services	\$ 58,796.95
• Investment Management Fees	\$ 547,270.74
• Interdepartmental Charges	\$ 124,722.90
• Miscellaneous	\$ 30,328.62

## **Immediate Withdrawals of Contributions for the month of March 2016:**

<b>MEMBER</b>	<b>Dept Name</b>	<b>Position</b>
Adams, Me'Sheri D	Public Utility	Admin Spec III-BU
Armbruster, Ginger E	DoIT	Strat Advsr 2
Baker, Shaun P	Police	Admin Spec III-BU
Beaver, Calvin E	Parks	Work Trng Enrollee
Bingham, Marinda A	City Light	Admin Spec III-BU
Bridges, Colleen E	SDCI	Admin Spec II-BU
Brown Jr, Robert	Seattle Center	Laborer
Bryan, Bradley M	Public Utility	Civil Engrng Spec, Assoc
Cubell, Layne A	Seattle Center	StratAdvsr2,General Govt
Eng, Brian W	Library	Library Assoc II
Frank Jr., Robert T	Office of Housing	Human Svcs Manager 2
Frank Jr., Robert T	Office of Housing	Human Svcs Manager 3
Gilmore, William B	Public Utility	Manager3,Utills
Lawrey, Pamela	City Light	Admin Spec II-BU
Loy, David A	FAS	Mgmt Svcs Anlyst, Sr
Mantilla, Andres J	Exec Depts	Strat Advsr 1
Martin, Kimberly L	Public Utility	Util Act Rep Trne
Mouton, Michell A	Police	Util Act Rep Trne
Noyes, Guy L	Library	Library Intermittent
Pacleb, Duke B	Public Utility	Wtr Pipe Wkr Aprn
Pieratt, Madelane M	Municipal Court	Prob Counslr I



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Rivers, Homer K	City Light	MatSup Elec Asg
<b>Sawyer, Secora L</b>	<b>Public Utility</b>	<b>Mgmt Sys Anlyst</b>
<b>Sawyer, Secora L</b>	<b>Public Utility</b>	<b>Mgmt Sys Anlyst</b>
Weber, Elizabeth E	SDOT	Civil Engrng Spec, Assoc

**Withdrawals for a total of: \$689,666.04**

Bold entries (if any) above indicate refund payment made to beneficiary of a member dying while in active status

c. Ratification of Service Retirements

The following list represents the retirements that have been processed since the last Retirement Board meeting.

Retiree	RetireDt	Age	Yrs	Days	DeptName	Position
Chagzoetsang, Doma L	2/24/2016	57	30	254.87	City Light	Util Acts Supv
Connors, Susan	2/6/2016	62	16	277.52	Library	Dev Ofc Admin Asst
Donnelly, Michael S	2/10/2016	69	19	131	Sea Center	Lock Tech *
Edwards, Earl H	2/1/2016	71	13	12.5	Vested	Com Dev Spec
<b>Fields, Sheila A</b>	<b>2/10/2016</b>	<b>66</b>	<b>35</b>	<b>103.14</b>	<b>Muni Court</b>	<b>Court Clerk</b>
Gilbertson, David G	2/4/2016	65	35	15.03	Parks Dept	Manager1,Parks&Rec
Groshong, Kathleen K	2/17/2016	61	23	263.26	Human Svcs	Plng&Dev Spec II
Hsu, Mary L	2/9/2016	65	3	160.13	Vested	Legislative Asst
Igo, Sandra L	2/5/2016	66	7	192.51	Exec Dept	Com Dev Spec
Johnson, Robert R	2/12/2016	63	8	338.43	SDCI	Elecl Plans Examiner
Keiper, Bruce G	2/18/2016	63	21	90.9	City Light	Capital Prjts Coord,Sr
King, Sherri L	2/27/2016	62	16	1.75	Vested	Mgmt Sys Anlyst
<b>Ko, Curtis J</b>	<b>2/9/2016</b>	<b>59</b>	<b>33</b>	<b>147.71</b>	<b>FAS</b>	<b>Shop Opns Supv</b>
Lenss, Diane K	2/3/2016	62	11	220.96	Police	Admin Support Supv-BU
Milbourn, Virginia L	2/13/2016	70	25	362.31	PublicUtil	Admin Spec III-BU
Minato, Marilyn J	2/10/2016	64	31	124.46	FAS	Treasury Cashier,Sr
Oesterreicher, Brian	2/9/2016	52	30	93	Police	Pol Comms Dispatcher,Chief
Philips, Christine	2/2/2016	62	32	187.18	PublicUtil	Mgmt Sys Anlyst,Sr
Phillips, Duane R	2/16/2016	62	19	120.27	Sea Center	Security Ofcr
Radliff, Rick L	2/2/2016	57	22	146.14	SDCI	Housing/Zoning Tech,Sr
Ray, Morris C	2/10/2016	64	23	51.74	Police	Parking Enf Ofcr
Sablan, Charles A	2/14/2016	59	6	169.21	Vested	Manager1,Parks&Rec
Smith, Elora A	2/19/2016	67	30	83.95	Parks Dept	Carpenter
Warner, Thomas W	2/6/2016	63	21	261.52	Human Svcs	Counslr
Young, Jeffrey R	2/10/2016	56	20	189.91	City Light	Strucl Pntr



For the month of March 2016: 66 new Members entered the System, 28 terminations, 25 Members retired in the System, 19 Members removed (\$29,652.00), 1 D/E Option, 3 F Option, and 2 over 60% benefit.

**Motion:** Upon motion by Tim Burgess, seconded by Robert Harvey, Jr., the Board of Administration accepted the Administrative Consent Agenda. The motion passed unanimously (5-0).

### **Clarification of At-Large Board Member's Term Expiration**

Ken Nakatsu stated that Robert Harvey, Jr. was appointed two summers ago as the At-Large Board Member. The motion at his appointment incorrectly referred to Mr. Harvey's term as expiring June 30, 2016. The reappointment was for three years which would extend his term to June 30, 2017. The motion presented clarifies Mr. Harvey's term.

**Motion:** Upon motion by Tim Burgess, seconded by Jean Becker, the Board of Administration clarified that there was an error on the March 13, 2014 Board of Administration minutes which stated that Robert Harvey, Jr.'s appointment as Seattle City Employees Retirement System Board of Administration at-large member was expiring on June 30, 2016. The intent of the reappointment was for Mr. Harvey to serve a three year term, hence expiring on June 30, 2017. The motion passed 4-0-1 with Robert Harvey, Jr. abstaining.

### **Corporate Credit Manager Selection**

Mr. Nakatsu stated that the Investment Committee is recommending the commitment of up to \$80M to Ares Institutional Credit Fund (ICF) for bank loans and high-yield bonds. The \$80M is a placeholder for the class. Staff expects to reduce the commitment as we select other managers.

At the Investment Committee meeting on March 31, 2016, the vote passed 5-0 with Susan Coskey abstaining. Ms. Coskey's concerns were with Race, and Social Justice. Staff and NEPC have come up with ideas on how we can improve our outreach, consistent with SCERS's ESG Policy.

Ares is not on NEPC's focused provider list (FPL), although Ares is a very large and highly regarded firm.

Ares has offered us a desirable fee arrangement because SCERS will be a seed investor in the new fund. Ares has the ability to shift emphasis between bank loans and high-yield bonds depending on circumstances.

Staff did a lot of due diligence in this process.

***(9:10 a.m., Lou Walter arrived)***

Mr. Harvey wanted to add that Ms. Coskey's abstention was not based on quality of the investment itself.

**Motion:** Upon motion of Glen Lee, seconded by Tim Burgess, the Board of Administration accepted the Investment Committee's recommendation that the Board of Administration commit approximately \$80 million to a corporate credit strategy managed by Ares Management LLC, pending satisfactory legal and NEPC due-diligence reviews. The motion passed unanimously (6-0).



**Seattle City Employees' Retirement System  
Board of Administration Meeting  
Seattle City Hall, Boards and Commissions Room, 600 Fourth Avenue, Seattle  
(206) 386-1293**

**Executive Director Report**

**2016 Trustee Elections Candidacy Period**

Mr. Nakatsu said that effective today, April 14, 2016, the filing period for Jean Becker's active member board seat was open. It is advertised on the website and also on member statements which members should receive today or tomorrow. The candidacy period closes on April 28, 2016. The election will occur in May if there is more than one candidate. The election will be certified by the Board at its June 9, 2016 meeting.

**Public Disclosure Exemption for Private Fund Information**

Mr. Nakatsu stated that the Washington State Legislature approved Senate Bill (SB) 6170 last month. The bill was presented jointly with Tacoma Employees' Retirement System and Spokane Employees' Retirement System. The bill is very significant in that it will enable all three city public pension plans to have greater access to top private fund managers. Some managers have told staff they were not interested unless they were an exception. It is also significant from a due diligence perspective. It helps staff to better monitor manager performance.

***(9:12 a.m., Susan Coskey arrived)***

SB 6170 amends RCW 42.56.270 and exempts from disclosure specific financial, commercial, and proprietary information for municipally operated pension plans, as reflected below.

"Financial and commercial information submitted to or obtained by the retirement board of any city that is responsible for the management of an employees' retirement system pursuant to the authority of chapter 35.39 RCW, when the information relates to investments in private funds, to the extent that such information, if revealed, would reasonably be expected to result in loss to the retirement fund or to result in private loss to the providers of this information except that (a) the names and commitment amounts of the private funds in which retirement funds are invested and (b) the aggregate quarterly performance results for a retirement fund's portfolio of investments in such funds are subject to disclosure."

The City of Seattle's Office of Intergovernmental Relations (OIR) and Spokane and Tacoma's legislative lobbyists did a fantastic job.

Mr. Lee stated that the passage of this bill is a remarkable achievement. SCERS's Executive Director did an amazing job.

**Legislation to Implement Plan II and Administratively Improve SMC 4.36**

Mr. Nakatsu stated that the proposed amendment to the Seattle Municipal Code (SMC) 4.36 is required to create a new retirement Plan II. Based on the advice of counsel, staff took the opportunity to also attempt to administratively improve and delete obsolete provisions in the code. The code will be much clearer on how certain provisions should apply.

Mr. Nakatsu said that next steps would be meeting with labor. A meeting with the coalition has been scheduled in early May. We are scheduling with Local 77 as well.

It is important that City Council have action on the amendment this summer. Staff is in the process of programming the new Pension Administration System (PAS) and will need to have certainty that the new provisions will be approved so they can move forward with programming.

Mr. Nakatsu stated that the items highlighted in yellow on the document are purely Plan II items with a few exceptions. The other items that are highlighted, primarily in blue, are the cleanup related provisions that staff and counsel think are necessary. We have also commented about the most notable items in the margins.

Nothing in the cleanup amendment substantively changes any member benefit. The amendment will not affect the rights or benefits of employees.

Mr. Harvey asked who discusses retirement benefits with new employees, human resources or SCERS. Mr. Nakatsu replied that non-exempt new employees do not have a choice and must become members of the retirement system.

Ms. Coskey stated that there is a new employee orientation for employees. If an employee is exempt from civil service, that employee is contacted directly by SCERS.

Mr. Davis stated that exempt employees are sent a memo and a follow-up email. He said that staff does a scan of SDHR's system several times a week to track new employees hired.

Mr. Burgess asked about the final drafting of the ordinance and when it was going to occur.

Ms. Coskey replied that the City has agreement with the coalition and is seeking to do so. As reflected earlier, meetings with Labor are being scheduled to review the ordinance.

**Motion:** Upon motion of Tim Burgess, seconded by Sherri Crawford, the Board of Administration accepts the proposed ordinance to amend SMC 4.36 to implement City of Seattle's Retirement Plan II and administratively improve the chapter. The motion passed unanimously (7-0).

### **Executive Session**

The Board of Directors entered into Executive Session at 9:31 a.m. for approximately 2.5 hours for the purposes of evaluating the qualifications of applicants for public employment.

Executive Session was closed and the Board of Administration meeting re-entered regular session at 12:12 p.m.

### **Adjourn Meeting**

The meeting was adjourned at 12:12 p.m.



Seattle City Employees' Retirement System  
Board of Administration Special Meeting  
Seattle City Hall, Boards and Commissions Room  
(206) 386-1293

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**Minutes of Tuesday, April 28, 2016**

**Board Members Present:** Tim Burgess, Lou Walter (via conference call.), Jean Becker, Robert Harvey, Jr., Glen Lee, Susan Coskey

**Others Present:** Mike Monaco (Song Mondress Law Firm), Paul Olsen (Seattle City Attorney's Office)

Tim Burgess called the meeting to order at 1:13 p.m.

**Executive Session**

The Board of Directors entered into Executive Session at 1:13 p.m. for approximately 45 minutes for the purposes of evaluating the qualifications of an applicant for public employment.

Executive Session was closed and the Board of Administration meeting re-entered regular session at 1:50 p.m.

**Motion:** Upon motion by Tim Burgess, seconded by Lou Walter, the Board of Administration moved to appoint Kenneth J. Nakatsu as Interim Executive Director of the Seattle City Employees' Retirement System for up to three years at a salary of \$223,562.00.

The meeting was adjourned at 1:51 p.m.



**Seattle City Employees' Retirement System  
Board of Administration Meeting  
Seattle City Hall, Boards and Commissions Room  
(206) 386-1293**

Minutes of Thursday, May 12, 2016

**Board Members Present:** Lou Walter (Chair), Robert Harvey, Jr., Jean Becker, Sherri Crawford

**SCERS Staff Present:** Ken Nakatsu, Jeff Davis, Jason Malinowski, Tony Smith, Jill Johnson, Cecelia Chen

**Others Present:** Mike Monaco (Song Mondress Law Firm), Michael Ryan (Seattle City Attorney's Office)

Lou Walter, Committee Chair, called the meeting to order at 9:00 a.m.

Mr. Walter asked if there was anyone present who wanted to make a public comment.

There was no public comment.

**Administrative Consent Agenda**

**Minutes:**

Provided in the Retirement Board packet was the minutes from the April 14, 2016 Retirement Board regular meeting.

**Ratification of Retired Payroll, Office Payroll, Other Payments and Withdrawals**

<b>Service</b>	\$13,022,747.44
<b>Beneficiary</b>	\$ 922,496.92
<b>Disability</b>	\$ 75,279.90
<b>Pension Payroll – PPE April 2016</b>	\$14,020,524.26
<b>Office Payroll – PPE April 5 and 19, 2016</b>	\$ 195,952.56
<b>Vouchers Processed – April 2016</b>	
• Expert and Consultant Services	\$388,568.86
• Investment Management Fees	\$463,890.49
• Interdepartmental Charges	\$124,724.02
• Miscellaneous	\$ 13,220.89

**Immediate Withdrawals of Contributions for the month of April 2016:**

<b>MEMBER</b>	<b>Department Name</b>	<b>Position</b>
Armstrong, Barbara May	Library	Librarian
Byun, Robin Hyunwook	City Light	Elec Pwr Sysys Engr
Cole, Andrea Lynn	SPU	Strat Advisor I
<b>Connaughton, Walter</b>	<b>Parks</b>	<b>Carpenter</b>
Dietzel, Stacey Ann	FAS	Cust Svr Rep, Sr
Fjetland, Sonja Marie	HSD	Human Svcs Prgm Supv, Sr
Ford, Jerry Amos	Parks	Rec Attendant
Hildreth, Casey Nelson	SDOT	Transp Plner, Assoc
Huang, Xiao Qing	Neighborhood	Acct Tech II
Kepu, Valerie Vilma	Sea Ctr	Laborer

LaCorte, Brenton Miles	Muni Court	Court Clerk
<b>Munoz, Cesar</b>	<b>Parks</b>	<b>Util Laborer</b>
<b>Sawyer, Secora Lu</b>	<b>SPU</b>	<b>Mgmt System Analyst</b>
Smith Jr, Roy Edward	City Light	Pwr Structs Mechanic
Walsh, Jeremiah John	FAS	Printing Equip Op
Williams, Lenette Renee	FAS	Cust Svr Rep, Sr

**Withdrawals for a total of: \$654,147.57**

Bold entries (if any) above indicate refund payment made to beneficiary of a member dying while in active status

c. Ratification of Service Retirements

The following list represents the retirements that have been processed since the last Retirement Board meeting.

Retiree	RetireDt	Age	Years	Days	DeptName	Position
<b>Aubrey,Jack L</b>	<b>4/2/2016</b>	<b>65</b>	<b>28</b>	<b>261.38</b>	<b>SDOT</b>	<b>Truck Drvr</b>
Banks,Teresa A	3/10/2016	63	12	362.2	SeaTech	Info Technol TechI Support
Barnes,Dean E	4/1/2016	66	8	4	Vested	Executive2
Berry,L Neil	4/6/2016	69	10	258.54	SeaTech	Info Technol Prof B-BU
Bjorkman,Hal R	3/9/2016	63	31	171.5	SDOT	Constr&Maint Equip Op
Boyd,George W	3/25/2016	54	20	354.38	Vested	Maint Laborer
<b>Brady,Donald L</b>	<b>3/8/2016</b>	<b>73</b>	<b>47</b>	<b>15.73</b>	<b>Vested</b>	<b>#N/A</b>
Brice,Michael A	3/2/2016	61	29	118.31	City Light	Jrnywkr In Chg
Clausen,Diane C	4/6/2016	57	28	129.09	PublicUtil	StratAdvsr3 *
Dadashi,Steven H	3/9/2016	67	25	19.58	City Light	Pwr Marketer
Davies,Lawrence M	4/6/2016	60	11	292.28	PublicUtil	Info Technol Prof A,Exempt
<b>de Haan,Sibylla L</b>	<b>4/4/2016</b>	<b>66</b>	<b>39</b>	<b>45.32</b>	<b>Library</b>	<b>Librn</b>
DeLong,Danny G	4/1/2016	64	4	86	Vested	#N/A
Dereszynski,Karen L	3/23/2016	65	21	248.23	Library	Library Assoc IV
Dong,Raymond G	4/4/2016	62	42	104.36	Library	Asst Mgr-Library
Fleeks,Barbara A	3/2/2016	61	24	162.75	Muni Court	Admin Spec II-MC
Furman,Stephen D	4/6/2016	62	34	183.9	City Light	Comms Elctn II
Hampton,Preston L	4/6/2016	66	19	337.73	City Light	Info Technol Prof B-BU
<b>Heindsmann,Renee J</b>	<b>4/1/2016</b>	<b>62</b>	<b>13</b>	<b>287.73</b>	<b>Vested</b>	<b>#N/A</b>
Hemenway,Elise J	4/6/2016	62	30	75.69	City Light	Gardener
Hennings,Richard B	3/2/2016	64	19	88.8	FAS	StratAdvsr2,General Govt
Heyman,Walter H	3/4/2016	62	26	103.84	FAS	Manager1,P&FM
Hobson,Kevin R	4/2/2016	56	30	336.33	Police	Pol Comms Dispatcher II
Holman,James R	2/25/2016	56	26	266.15	Parks Dept	Laborer
Horiuchi,Timothy P	3/2/2016	55	25	254.56	City Light	Mat Suplr,Elec-Asg Phd/Cw/D
Jacobs,Martha W	3/18/2016	66	1	73.26	Vested	Plng&Dev Spec II *
Keese,Gary E	4/6/2016	65	17	287.95	VarDept	StratAdvsr1,Exempt
Keys,Lorrie C	4/6/2016	56	26	85.41	SDCI	Actg Tech II-BU
Kieval,Patricia W	4/1/2016	65	2	61.18	Vested	Personnel Spec
Laird,Robert J	4/6/2016	56	25	132.16	SDCI	Executive2
<b>Launceford,John E</b>	<b>3/9/2016</b>	<b>61</b>	<b>33</b>	<b>32.86</b>	<b>Parks Dept</b>	<b>Constr&amp;Maint Equip Op</b>
Leaf,Jen	3/2/2016	62	14	223.47	City Light	Mgmt Sys Anlyst,Asst
Lee,Oliver D	4/5/2016	60	10	315.6	Parks Dept	Maint Laborer
Logan,Jerry D	3/15/2016	62	18	205.1	SDOT	Maint Laborer
McClistter,Michael T	4/6/2016	65	8	273.24	City Light	Meter Reader,Sr
Moses,Miriam I	2/29/2016	65	7	118.87	Vested	StratAdvsr2,Exempt
Paige,Dwayne K	3/2/2016	65	26	236.34	PublicUtil	Plng&Dev Spec,Supvsng
Peda,Erma R	4/1/2016	62	6	271.72	Vested	Librn
Pulford,Alvin T	4/6/2016	65	23	234.24	City Light	Capital Prjts Coord,Sr
Puloka,Madelene L	4/2/2016	50	30	127.87	PublicUtil	Drainage&Wstwtr Coll CC



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Roberts, Kevin D	3/9/2016	62	19	4.12	FAS	Parking Meter Collector
Roberts, Paul C	3/9/2016	56	30	4.37	SDOT	Civil Engrng Spec, Assoc *
Rodol, Ali M	4/6/2016	61	31	3.85	City Light	Pwr Marketer
Schuh, John J	4/6/2016	67	22	231.82	City Light	Lnwkr
Schwedas, Daniela	4/2/2016	67	15	62.78	PublicUtil	Admin Staff Asst
Seifert, Thomas W	4/6/2016	62	15	216.76	FIRE	Fire Protection Engr, Sr
Sinclair, Nina J	3/23/2016	65	22	291.29	Parks Dept	Envrnmntl Anlyst, Sr
Specker, Christopher G	4/6/2016	55	25	306.44	City Light	Elecl Engr, Assoc
<b>Taylor, Dennis</b>	<b>4/6/2016</b>	<b>72</b>	<b>47</b>	<b>213.7</b>	<b>City Light</b>	<b>Jrnywkr In Chg</b>
Tuifua, Kilisitina M	3/16/2016	68	25	345.33	PublicUtil	Pmp Stat Maint Leadwkr
<b>Valentin, Charles M</b>	<b>4/3/2016</b>	<b>58</b>	<b>36</b>	<b>135.3</b>	<b>City Light</b>	<b>Enrgy Mgmt Anlyst, Asst</b>
<b>Ventoza, Linda J</b>	<b>4/6/2016</b>	<b>71</b>	<b>34</b>	<b>241.86</b>	<b>Police</b>	<b>Parking Enf Ofcr</b>
Villa, Christopher J	3/20/2016	57	19	195	Vested	Pressure Sysys Inspector(J)
Wenderoth, Catherine A	3/3/2016	56	33	274.8	Police	StratAdvsr1 *
<b>Wenrick, Ricky A</b>	<b>3/9/2016</b>	<b>59</b>	<b>37</b>	<b>266.58</b>	<b>City Light</b>	<b>Passenger &amp; Tugboat Op, Sr</b>
West, Philip W	3/9/2016	62	6	240.83	City Light	Electric Util Exec 3, Ofcr
Wicklund, Jeanne M	4/6/2016	61	5	279.69	Police	Admin Spec I-BU
Wood, Carol A	4/6/2016	67	25	164.36	PublicUtil	Admin Spec II-BU
Yeouroukis, Sher A	3/9/2016	67	22	172.36	City Light	Elecl Engrng Spec, Asst III

**Motion:** Upon motion by Jean Becker, seconded by Robert Harvey, Jr., the Board of Administration approved the May 12, 2016 Administrative Consent Agenda. The motion passed unanimously (4-0).

- Minutes of the April 14, 2016 Board Meeting
- Minutes of the April 28, 2016 Special Meeting of the Board
- Ratification of Retirement Payroll, Office Payroll, Other Payments and Withdrawals
- Ratification of Service Retirements for the month of April 2016

**Administrative Committee Report – April 28, 2016:**

Ken Nakatsu reported on the April 28, 2016 Administrative Committee (AC) meeting. He stated that at the meeting they introduced retirement charters and policies that needed to be reviewed and revised and/or repealed as appropriate. The most urgent are the Environmental, Social, and Governance (ESG) Policy and the Credit Interest Rate Policy.

Mr. Nakatsu stated that SCERS also soon needs a policy guide for public disclosure of private fund information.

He stated that the ESG and Credit Interest Policies will be discussed at the May 26<sup>th</sup> Administrative Committee and invited all Board Members to participate.

**Investment Committee Report – April 28, 2016:**

Jason Malinowski reported on the April 28, 2016 Investment Committee (IC) meeting. He stated that the staff recommended a \$12M commitment to Global Infrastructure Partners III (GIP III), a global and sector diversified infrastructure strategy. Mercer gave GIP III high marks with respect to their ESG (environmental, social, and governance) processes, and GIP is on the Focused Placement List (FPL) for NEPC.

Mr. Malinowski said the IC recommended that the Board approve the commitment to GIP III.

Robert Harvey, Jr. stated Susan Coskey had voted “no” and asked whether this needed to be reflected in the motion.

Mike Monaco replied that the vote was still 4-1 so it still carries. Michael Ryan agreed with Mike Monaco’s assessment.

The minutes will reflect that Susan Coskey voted no in the IC rather than abstaining.

**Motion:** Upon motion of Sherry Crawford, seconded by Robert Harvey, Jr., the Board of Administration accepted the Investment Committee recommendation that the Board of Administration commit \$12 million to Global Infrastructure Partners III, pending satisfactory legal review. The motion passed unanimously (4-0).

### **Executive Director Report**

Ken Nakatsu stated that the Trustee Election for Jean Becker’s active seat began today and will end on June 6, 2016. There are two candidates on the ballot: Jean Becker and James Warren. SCERS members have the option of voting by mail or on-line.

Jeff Davis gave an update on the Pension Administration System (PAS). He stated that the project was going very well and the teams (SCERS staff and ViTech consultants) were working very well together. It was still very early but it was encouraging so far.

Mr. Nakatsu reported on the work plan. He stated that the 2016 Trustee Election results will be announced at the June 9<sup>th</sup> Board meeting. The next election will be for Lou Walter’s position.

Mr. Walter asked how we review our senior staff.

Mr. Nakatsu replied that we have annual performance evaluations and that senior staff generally receive the COLA. Mr. Nakatsu said that he has concerns with being competitive, e.g., for the CIO, CFOO. He said we have a great team and wants to make sure we are placing them appropriate in the market.

Ms. Becker stated that she would like to begin the discussion at the next meeting.

Mr. Walter said that he appreciates the people who work in the public sector and is aware that salaries are under the private sector pay. He wants to make sure the board is generating the appropriate packages.

Mr. Davis reported on the dashboard.

He stated that the retirement estimates are now being completed within three weeks. The Pension Administration System (PAS) schedule is now on the dashboard. The budget remains stable.

Mr. Walter asked what was the funding ratio.

Mr. Davis replied it was about 64% but the actuarial asset smoothing hasn’t been factored in yet.

Mr. Harvey asked if it is going to be a long time before we see an uptick in the funding.

Mr. Malinowski said that it will be challenging for the City to close that gap from investment performance. NEPC’s projections for the next 5-7 years are 6-6.5% which is less than the 7.5% assumed rate of return.





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Mr. Harvey asked if SCERS II will affect the funding level. Mr. Nakatsu replied that it will not directly affect the funding level, although the City and employees will be paying less.

**Adjournment**

**Motion:** Upon motion by Jean Becker, seconded by Sherri Crawford, the Board of Administration voted to adjourn the meeting at 9:42 a.m. The motion passed unanimously (4-0).

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//  
Susan Coskey, Secretary



**Seattle City Employees' Retirement System  
Board of Administration Meeting  
Seattle City Hall, Boards and Commissions Room, 600 Fourth Avenue, Seattle  
(206) 386-1293**

**Minutes, Thursday, June 9, 2016**

**BOARD MEMBERS PRESENT:** Tim Burgess (Chair), Glen Lee, Jean Becker, Lou Walter, Robert Harvey, Jr. (arrived at 9:28 a.m.), Sherri Crawford, Susan Coskey

**SCERS STAFF PRESENT:** Ken Nakatsu, Jeff Davis, Jason Malinowski, Tony Smith, Jill Johnson, Nina Melencio

**OTHERS PRESENT:** Mike Monaco (Song Mondress Law Firm), Carlton Seu (Seattle City Attorney's Office), Bill Roach, John Masterjohn (ARSCE), James Warren, George Emerson (FAS), Nate Van Duzer (LEG)

**Call to Order:**

Tim Burgess, Committee Chair, called the meeting to order at 9:00 a.m.

Mr. Burgess asked if there was anyone present who wanted to make a public comment.

**Public Comment:**

Bill Roach stated that he is a proud 44 year member of the retirement system. He came today to the listen to the Environmental, Social, and Governance (ESG) Report amongst other things. He received an early copy of the report and noticed that a chart was missing. He stated that the chart compares performance of energy holdings SCERS has to non-energy holdings. Mr. Roach stated that piece is important for the Board to fulfill their fiduciary responsibilities. It speaks about the importance of maintaining investments. He stated he did not understand why it was not there and asked that it be put back for future reports.

Mr. Roach also spoke to the ESG policy that the Board will be considering. He stated that one section (A4) must not be considered. He asked what was the intent of the Board for a recently considered proposal to be considered duplicative. Mr. Roach asked if that section in the policy meant that a person could not come to the Board again. He stated that the Board has been very receptive to suggestions and he hoped that it did not mean that the Board was cutting off communication.

Mr. Burgess thanked Mr. Roach. There were no other public comments.

**Administrative Consent Agenda**

**Minutes**

Provided in the Retirement Board packet was the minutes from the May 12, 2016 Retirement Board regular meeting.

**Ratification of Retired Payroll, Office Payroll, Other Payments and Withdrawals**

<b>Service</b>		\$13,061,295.41
	<b>Beneficiary</b>	945,359.68
	<b>Disability</b>	<u>75,185.23</u>
	<b>Pension Payroll – PPE May 2016</b>	\$14,081,840.32
	<b>Office Payroll – PPE May 3, 17, and 31, 2016</b>	\$ 300,411.26
	<b>Vouchers Processed – May 2016</b>	
	• Expert and Consultant Services	\$ 128,835.30
	• Investment Management Fees	\$ 39,058.87
	• Interdepartmental Charges	\$ 124,405.75
	• Miscellaneous	\$ 24,776.74

**Immediate Withdrawals of Contributions for the month of May 2016:**

<b>MEMBER</b>	<b>Dept Name</b>	<b>Position</b>
Anderson,Pearl	SDCI	Actg Tech II-BU
Axtel,Richard S	Public Util	Mgmt Sys Anlys, Sr
<b>Bassett,Tasha L</b>	<b>Public Util</b>	<b>Civil Engr Spec</b>
Blackburn,Christopher C	Public Util	Trng&Ed Coor Sr
Bowden,Brent D	Law Dept	City Attorney Asst
Burrough,Bruce M	Library	Janitor
Chan,Ashley R	Executive Dept	Civil Rights Analyst
Combs,Pamela A	City Light	Elec serv rep
Combs,Pamela A	City Light	Elec serv rep
Cramer,Kari M	Police	Pol Comms Dispatcher I
Crisanto,Cyrus G	FAS	Auto Mechanic
<b>Dimuzio,Meghan K</b>	<b>City Light</b>	<b>Engr Res&amp;Eval Supv</b>
Ferrer,Tasha R	FAS	Cust Svc Rep
Gallup,Wayne L	SDOT	C. Engr Spec, Sr.
Gray,Alexander J	SDOT	Mgmt Sys Anlyst, Sr
Hahn,Peter E	SDOT	Executive 4
Hardin,Joel C	Parks Dept	Plumer
Herkes,Rebecca M	SDOT	Civil Engr Asst 1
Holt,Kathleen U	City Light	Pwr Analyst, Sr
Jackson II,Cleatious L	Municipal Court	Plumber
Lee,Monica S	SDCI	Admin Spec II-BU
Martin,Kimberly L	Public Util	Util Act Rep Trne
Martin,Tracy A	SDCI	Civil Engrng Spec,Sr
Montesa II,Jose Pro Manlapaz	City Light	StratAdvsr3,Info Technol-BU
Robinson,Patrick T	Sea Center	Stage Tech
<b>Saul,Amanda M</b>	<b>City Light</b>	<b>Engr Res&amp;Eval Supv</b>
Sharma,Shreya	Human Svcs	Human Svcs Prgm Supv, Sr
Simmons,Paula R	Police	Admin Spec I-BU
Trausch,John M	City Light	StratAdvsr2
Watson,Treavion D	Public Util	Gardener
Zapata,Armando L	Parks Dept	Park Ranger

**Withdrawals for a total of: \$1,017,890.25**

Bold entries (if any) above indicate refund payment made to beneficiary of a member dying while in active status

c. Ratification of Service Retirements

The following list represents the retirements that have been processed since the last Retirement Board meeting.

<b>Retiree</b>	<b>RetireDt</b>	<b>Age</b>	<b>Years</b>	<b>Days</b>	<b>DeptName</b>	<b>Position</b>
Anderson,Kenneth L	4/12/2016	62	25	73.42	FAS	Auto Mechanic
Bethea,Regena L	5/4/2016	61	22	276.55	SDOT	Admin Staff Anlyst
Billingsley,Dawn	5/3/2016	62	8	349.97	Vested	#N/A
Blanchard,Kathleen M	5/4/2016	60	26	83.1	Parks Dept	Gardener,Sr

<b>Campau, Daniel N</b>	<b>5/4/2016</b>	<b>64</b>	<b>37</b>	<b>77.33</b>	<b>Parks Dept</b>	<b>Maint Laborer</b>
<b>Cobb, Jeffrey L</b>	<b>4/19/2016</b>	<b>61</b>	<b>34</b>	<b>345.64</b>	<b>Parks Dept</b>	<b>Truck Drvr</b>
Collier, Sydney	5/4/2016	68	15	78.84	FAS	Auto Mechanic
Culleton, Roger S	4/13/2016	62	13	69.92	City Light	Civil Engrng Spec Supv
Guise, Eric S	4/7/2016	69	23	354.16	Human Svcs	Trng&Ed Coord
Harris, Donald M	4/15/2016	67	46	235.64	Parks Dept	Manager2, Exempt
Hume, Richard B	4/13/2016	62	29	360.28	Muni Court	Manager1, Exempt
Kerschner, Jeffrey M	5/4/2016	57	24	15.38	City Light	Generation Supv-BU
Kortz, Jane F	5/4/2016	67	26	102.26	CtyEmpRetr	Info Technol Prof B *
Lightfoot, Kevin D	5/4/2016	61	18	55.38	SDOT	Street Maint CC
Lupton, Rick N	5/4/2016	65	32	187.66	SDCI	StratAdvsr2, Engrng&Plans Rev
<b>Malgren, John A</b>	<b>5/4/2016</b>	<b>63</b>	<b>39</b>	<b>289.48</b>	<b>Muni Court</b>	<b>Info Technol Prof B-BU</b>
Maraire, Mazvita A	5/4/2016	54	20	228.12	Parks Dept	Rec Prgm Spec, Sr
Martin, Jon R	4/20/2016	65	30	200.47	Parks Dept	Parks Maint CC
Mateo, Joselito V	4/13/2016	65	24	214.57	PublicUtil	Wtr Quality Anlyst
Miller, Donna M	4/20/2016	67	36	94.4	Vested	Admin Spec III-BU
Price, Brenda L	5/3/2016	67	15	96.5	Muni Court	Admin Support Supv-MC
<b>Symonds, Katherine M</b>	<b>5/4/2016</b>	<b>66</b>	<b>37</b>	<b>312.91</b>	<b>Muni Court</b>	<b>Prob Counsr I</b>
Tonkyn, Christine A	4/20/2016	58	30	0.39	City Light	Strucl Pntr CC
<b>Van Dan Acker, David J</b>	<b>5/3/2016</b>	<b>65</b>	<b>32</b>	<b>103.03</b>	<b>FAS</b>	<b>Auto Mechanic</b>
Williamson, David A	5/4/2016	66	35	344.69	City Light	CbIspl-Net Area
Wilson, Richard F	5/4/2016	68	15	218.23	PublicUtil	Civil Engrng Spec, Asst III

For the month of May 2016: 100 new Members entered the System, 30 terminations, 26 Members retired in the System, 10 Members removed (\$19,502.15), 2 D/E Option, 3 F Option, and 5 over 60% benefit.

- Motion:** Upon motion by Tim Burgess, seconded by Glen Lee, the Board of Administration approved the June 9, 2016 Administrative Consent Agenda. The motion passed unanimously (6-0).
- Minutes of the May 12, 2016 Board Meeting
  - Ratification of the Retirement Payroll, Office Payroll, Other Payments and Withdrawals
  - Ratification of Service Retirements for the month of May 2016

### **Environmental, Social, and Governance (ESG) Update**

Jill Johnson and Jason Malinowski reported on the second quarter 2016 ESG update.

Mr. Malinowski referenced Mr. Roach's statement during Public Comment regarding a missing table on the ESG report. The table referenced was the Market Performance table. Mr. Malinowski stated that there was a question during the March 10, 2016 Board meeting if the table would be the basis for an investment action. Mr. Malinowski responded that the Market Performance table would not be used for an investment action as past performance is not an indicator of future results, particularly over such short periods of time. The Board requested that the chart be removed from future ESG updates.

Mr. Malinowski proceeded with the ESG Report by stating that CalPERS indicated it had lost between \$3.8 and \$8 billion from their past divestments, mostly from tobacco and South Africa. CalPERS is looking at possibly reinvesting in tobacco.

On June 6, 2016, DC Divest announced that the Washington DC Retirement Board (DCRB) divested its directly held stock in fossil fuel companies although DCRB have not yet commented. This action is limited to its "separate accounts," which appear to be exclusively actively-managed.

Mr. Burgess asked if SCERS has directly held stocks.

Mr. Malinowski replied that SCERS does hold a portion of its stocks directly in separate accounts, but does not have any such accounts that are actively-managed.

Mr. Walter asked about the breakdown of CalPERS's divestment losses between tobacco and South Africa.

Mr. Malinowski replied that it is approximately 50/50. He understood that the magnitude of losses is leading them to explore reinvesting in tobacco.

Ms. Johnson stated that CalPERS has created a subcommittee to reconsider their divestment actions.

Ms. Coskey asked if a lawsuit was brought in California, would the boards be shielded from liability because they had fulfilled their fiduciary duties.

Mike Monaco replied that it might, but if it happened in Washington, there is no protection provided in state law.

Mr. Malinowski said that Wilshire Associates announced a program that is similar to Mercer's relative to educating boards and staff about climate change and its consequences for investors. In their paper, they stated that "the systemic nature of climate risk may make divestment an ineffective investment strategy for bringing about change and could actually introduce new risks and costs into an asset owner's portfolio." Although, they did state that divestment could be prudent if ownership of certain assets is incongruent with an asset owner's beliefs and mission, such as in the case of foundations and endowments.

Ms. Johnson stated that she attended the Council of Institutional Investors (CII) Spring Conference in March. Speakers and panelists spoke on ESG issues and takeaways from the Paris COP 21 agreement.

Ms. Johnson also mentioned that she participated in a call with one of SCERS's managers to question the inconsistency of their proxy voting track record with their CEO's public comments on the importance of ESG.

***(9:28 a.m. - Robert Harvey, Jr. arrived)***

Mr. Malinowski stated that there was a request from the Administrative Committee to review the positive actions related to ESG that SCERS has taken since February 2015. That information is listed on page 16-17 of the packet.

Mr. Lee said that it was an impressive body of work.

Ms. Becker stated that staff is mindful of appropriately incorporating ESG into our investment actions and that she applauded them for that.

Ms. Coskey thanked staff for clearly incorporating ESG into their work and being responsive. She said she feels that the Board is being well represented and appreciated their efforts. Ms. Coskey said that they have the Board's full support.

**Administrative Committee Report – May 26, 2016**

**Appointment of Cathy Cao and Steve Hill to the Investment Advisory Committee (IAC)**

Ken Nakatsu stated that there are currently three members on the Investment Advisory Committee (IAC) which is the required minimum. It is preferable to have a total of four or five IAC members, so a notice was placed on SCERS's website and we have sought new candidates. There were three (3) applicants; the Administrative Committee is recommending two of them. The resumes are in the packets.

Cathy Cao is a professor at Seattle University. Steve Hill was the former director of the Washington State Department of Retirement System and served on the Washington State Investment Board in that role.

**Motion:** Upon motion of Jean Becker, seconded by Lou Walter, the Board of Administration accepted the Administrative Committee's recommendation and appointed Cathy Cao and Steve Hill as members of the Investment Advisory Committee effective July 1, 2016. The motion passed unanimously (7-0).

### **Credit Interest Policy for Member Contributions**

Mr. Nakatsu said for the past four years the Board has chosen not to grant an additional 0.25% on top of the U.S. Treasury Bond average from June to May of the prior year in determining the subsequent year's "credit interest" rate for members' contributions since 2011, as the Board's policy reflects as a target. There are two issues. First, it is confusing that the credit interest rate adopted annually by the Board is less than the target. Second, Milliman reflects that policy at the valuation study and, consequently, our actuarial valuation is slightly lower than it would be if the policy were revised to reflect recent past and probable future decisions of the Board. Staff recommends that the policy be revised to drop reference to an additional 0.25%.

Mr. Burgess stated we will have a motion, then discussion.

Mr. Walter said that he understands the pressure on the funding ratio. He stated that he is concerned that there will be future actions to lower the credit interest rate further. Mr. Walter would vote against the motion.

Ms. Coskey stated that she is also concerned with the motion and that she would feel differently if we did not require employees to participate in the retirement system. She does not consider it a fiduciary issue or health of the plan issue.

**Motion:** Upon motion of Jean Becker, seconded by Robert Harvey, Jr., the Board of Administration accepted the Administrative Committee's recommendation and adopted the revised Credit Interest Policy for Member Contributions. The motion passed 5-2 with Lou Walter and Susan Coskey voting against the recommendation.

### **Consideration for Environmental, Social, and Governance Policy and Procedure**

Mr. Nakatsu stated that the current policy states that it would be reviewed every three years. He stated it has been nearly three years, and that we are bringing a proposed revision forward now because we were also having an ESG update. He also mentioned that the proposed policy revision had been reviewed at the preceding month's Administrative Committee; and that today's Board meeting was expected to be his last, until the Board very recently had asked him to stay longer.

Mr. Burgess asked Mr. Monaco to address the concerns Mr. Roach made during Public Comment.

Mr. Monaco stated that given the trustee and fiduciary duties of the Board, the revised policy is the strongest statement SCERS could make on ESG. He stated that the more recent DOL language has been helpful in recrafting the policy to make it clearer. When the policy says "economically equivalent" it is specifically incorporating DOL recent references even though there is little substantive change in the policy and that SCERS has always operated in a manner consistent with DOL's guidance. The revised policy language does help clarify boundaries.

Mr. Monaco stated that there is a proposed amendment to the proposed policy by Susan Coskey in which "may only consider" is replaced by "will give preference". The revision is as follows:

"The Board will give preference to an Investment Manager that advances its ESG goals if the selection results in an expected return on investment and related risk that is at least economically equivalent to other available Investment Managers in the same category."

Ms. Coskey stated that Mr. Malinowski and Ms. Johnson are also working on a procedure on how to operationalize this policy.

Mr. Burgess asked Ms. Coskey to move her amendment. Ms. Coskey moved the amendment.

Mr. Monaco added that the proposed amendment to the revised policy meets the Board's fiduciary responsibility. And, relative to the question raised during public comment about whether an ESG proposed action is duplicative, the Board has the discretion to decide if a proposal is similar enough to a previously considered proposal to be considered duplicative.

Mr. Monaco stated that this specific issue relates to considering outside proposals and it is appropriate for the Board to regulate workflow and its ability to manage those issues.

Mr. Burgess said that this is not a new policy. The key phrase is “at the discretion of the Board”.

Mr. Nakatsu added that the previous policy had included the Investment Committee in the decision making. The revised policy drops that step in the interest of expediency and allows the Board to take action directly. Mr. Nakatsu also added that it is important to acknowledge that 350 Seattle has been exceptionally valuable for bringing proposals and information to staff and the Board, helping to keep us abreast of developments, and has really been a catalyst for SCERS to have undertaken its significant ESG actions.

Mr. Burgess said that Mr. Nakatsu, Mr. Malinowski, Ms. Johnson, Ms. Crawford, Mr. Lee, Mr. Van Duzer, and he had met with members of 350 the previous week for 90 minutes and had a healthy back and forth discussion.

**Motion:** Upon motion of Tim Burgess, seconded by Susan Coskey, the Board of Administration accepted the Administrative Committee’s recommendation and adopted the revised Environmental, Social, and Governance Policy and Procedure as amended. The motion passed unanimously (7-0).

## Investment Committee Report

### US Small Cap Equity Manager Selection – May 26, 2016

Mr. Malinowski stated that the Investment Committee is recommending to the Board to increase its investment with Dimensional Fund Advisors (DFA) with a \$58M US small cap equity mandate to complement its existing non-US small cap equity mandate. This follows an expansive US small cap value and growth search that Ms. Johnson led.

**Motion:** Upon motion of Lou Walter, seconded by Glen Lee, the Board of Administration accepted the Investment Committee recommendation and approved the investment of approximately \$58 million in the DFA US Small Cap Trust, pending satisfactory legal review. The motion passed unanimously (7-0).

### Infrastructure Manager Selection – April 28, 2016

Mr. Malinowski stated that staff were bringing back something that was approved at the May 12, 2016 Board meeting. Global Infrastructure Partners III (GIPIII) contractually handles its commitment amount and associated management fees in a different way than many other managers. K&L Gates and staff are comfortable with that arrangement but a revised motion is needed. The motion has been changed to include the term “plus applicable management fees”.

**Motion:** Upon motion of Lou Walter, seconded by Jean Becker, the Board of Administration accepted the Investment Committee recommendation that the Board of Administration commit \$12 million plus applicable management fees to Global Infrastructure Partners III, pending satisfactory legal review. The motion passed unanimously (7-0).

## Executive Director Report

### 2016 Trustee Election (Active Member Seat)

**Motion:** Upon motion of Susan Coskey, seconded by Lou Walter, the Board of Administration ratified the certification of election results as provided by Election Services Co. for the 2016 Board of Administration election for the active member seat (3-year term July 1, 2016 – June 30, 2019); and Jean Becker was re-elected. The motion passed 6-0-1 with Jean Becker abstaining.

## **Operations/Finance Report**

Jeff Davis reported that staff and ViTech consultants are about to complete the first round of sprints for the Pension Administration System (PAS). The foundational components of the PAS have already been completed.

The operations staff are about to start a six week training course which will include soft skills on customer service.

The July Board agenda will include Milliman's valuation report and the financial audit.

## **SCERS Dashboard**

Mr. Davis stated that the wait for retirement estimates has dropped below target levels and is sustainable. Staff is working on buybacks and other items. We are now going to utilize the member services team on the PAS. They will be doing testing and data validation.

Mr. Nakatsu said the credit goes to Mr. Davis and his team.

Mr. Burgess asked when the Board can return to the SCERS conference room at the Pacific Building.

Mr. Davis replied that scanning for the PAS will occur in the conference room through the end of this year. There's a possibility that Board meetings can be moved back to the Pacific Building in 2017.

Ms. Becker asked Mr. Davis what he attributes to getting the retirement estimates down.

Mr. Davis replied that the department has added capacity with term limited staff, but the biggest component is adding a full time position to manage the group. Before the position was part-time. Cynthia Scheiderer has been focused on providing guidance and improving the department.

Mr. Nakatsu stated that Ms. Scheiderer is exceptional in what she does.

Mr. Malinowski reported on investment performance on the Dashboard. He stated that SCERS's performance has improved relative to peers.

### ***(10:17 a.m. – Susan Coskey left the meeting)***

Mr. Walter stated that he was interested in taking a look at SCERS senior executive compensation. He said that is a matter the Board needs to take up at some point.

Mr. Nakatsu said that he did not think it required Board action. Most, if not all, of the Board is supportive. He said that he can take the initiative for SDHR review. It was clear the Board is concerned about it.

Mr. Burgess asked Mr. Nakatsu to keep the Board informed.

Mr. Harvey asked how the City handles it. He stated that he was also supportive.

Mr. Nakatsu replied that SCERS would go through the SDHR process. He would reflect that it was the priority of the Board.

**Adjourn Meeting – The meeting was adjourned at 10:28 a.m.**

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Susan Coskey, Board Secretary





**Seattle City Employees' Retirement System  
Board of Administration Meeting  
Seattle City Hall, Boards and Commissions Room, 600 Fourth Avenue, Seattle  
(206) 386-1293**

Minutes, Thursday, July 14, 2016

**BOARD MEMBERS PRESENT:** Tim Burgess (Chair), Glen Lee, Jean Becker, Lou Walter, Sherri Crawford

**SCERS STAFF PRESENT:** Ken Nakatsu, Jeff Davis, Jason Malinowski, Tony Smith, Cecelia Chen, Deontrae Sherrard, Nina Melencio

**OTHERS PRESENT:** Gavin Parr (Song Mondress Law Firm), Carlton Seu, (Seattle City Attorney's Office), Kevin Clark (ARSCE Board), George Emerson (FAS), Nate Van Duzer (LEG), James Warren, Nick Collier (Milliman), Thomas Rey (CliftonLarsonAllen)

**Call to Order:**

Tim Burgess, Board Chair, called the meeting to order at 9:03 a.m.

Mr. Burgess asked if there was anyone present who wanted to make a public comment.

**Public Comment:**

Kevin Clark stated that he has been a member of the retirement system since 1978 and has been retired for 10 years. Mr. Clark said he is on the board of Active and Retired Seattle City Employees (ARSCE). At the July 13, 2016 ARSCE board meeting, they discussed the City's proposed ordinance that clarifies and makes technical corrections to SMC 4.36, and creates a new retirement plan for employees hired after January 1, 2017. ARSCE does not have a position about the proposed Plan 2. They are concerned about the cleanup part of the ordinance, specifically SMC 4.36.550.B.

Mr. Clark stated that the current language guarantees that the City cannot change retirement benefits for retirees and employees who are eligible to retire. He said there should be some sort of process required before a change can be made, perhaps some sort of fiscal note review to ensure that members are not adversely affected, and which forces the City to review any proposed benefit changes publicly. Mr. Clark stated this proposed ordinance shifts the burden onto members to oppose any potential changes rather than requiring the City disclose and defend any proposed changes, and doesn't give members any reassurance that their benefits are protected.

**Administrative Consent Agenda**

**Minutes**

Provided in the Retirement Board packet was the minutes from the June 9, 2016 Retirement Board regular meeting.

**Ratification of Retired Payroll, Office Payroll, Other Payments and Withdrawals**

<b>Service Beneficiary Disability</b>	\$13,011,166.88 935,516.13 <u>74,295.91</u>
<b>Pension Payroll – PPE June 2016</b>	<b>\$14,020,978.92</b>
<b>Office Payroll – PPE June 14 and 28, 2016</b>	<b>\$ 202,133.25</b>
<b>Vouchers Processed – June 2016</b>	

- Expert and Consultant Services \$ 10,227.04
- Investment Management Fees \$ 315,790.04
- Interdepartmental Charges \$ 124,669.60
- Miscellaneous \$ 54,821.80

**Immediate Withdrawals of Contributions for the month of June 2016:**

MEMBER	DEPT	POSITION
Aben Jr, Lope V	Retired	Retired
Adams, Brunye R	Human Resources	Admin Spec II
Bricker, Danielle L	City Light	Capital Prjts Coord, Sr
Brown, David W	SeaTech	Human Resources
Campbell, Tessa R	Library	Library Assoc II
Clark, Alex T	Human Svcs	Counslr *
Collier, Tonya M	Public Util	Fin Anlyst, Sr
Crisanto, Cyrus G	FAS	Auto Mechanic
Davidson, Billie J	Police	Pol Comms Dispatcher II
Drangsholt, Steven H	Public Util	Manager3, Exempt
Eastey Jr, Richard F	Human Svcs	Personnel Spec, Asst *
Ison, Brooke A	Police	Parking Enf Ofcr
Kendall III, David A	Library	Systs Anlyst 2, Sr-Libr
Lai, Chaocheng J	FAS	Info Technol Prof B-BU
Martin, Tracy A	SDCI	Civil Engrng Spec, Sr
Moore, Patrick J	Police	Pol Ofcr
Nelson, Travis T	Police	Evidence Warehouser
Raschke, Timothy D	City Light	Lnwkr
Ruiz, Yemaya H	FAS	Contract Anlyst, Sr
Warner, Melissa M	FAS	Admin Spec III-BU

**Withdrawals for a total of: \$319,435.78**

Bold entries (if any) above indicate refund payment made to beneficiary of a member dying while in active status

c. Ratification of Service Retirements

The following list represents the retirements that have been processed since the last Retirement Board meeting.

Retiree	RetireDt	Age	Years	Days	DeptName	Position
Adams, Darlene M	5/28/2016	62	34	308.88	FAS	Admin Support Asst-BU
Addington, Ruby A	5/18/2016	71	17	349.83	City Light	Actg Tech II-BU
Adler, Robert J	6/1/2016	64	15	30.24	Library	Bldg Maint Wkr
Berry, Susan J	6/1/2016	59	9	0.5	Vested	
Goldman, Herbert O	5/6/2016	65	15	109.88	Vested	Rights-Of-Way Maint Lead Wkr
Gravemaker, Jan E	5/31/2016	65	1	362.2	Vested	
Kukahiko, Edward N	5/25/2016	61	30	116.49	PublicUtil	Wtr Pipe Wkr, Sr
Monaghan, Suellen	5/11/2016	71	11	135.65	FAS	Actg Tech I-BU
Schmidt, David B	5/13/2016	58	20	96.5	Parks Dept	Carpenter
Smith, James W	5/11/2016	62	27	242.72	PublicUtil	Actg Tech II-BU
Whiteford, Marylou	5/5/2016	69	24	76.64	Parks Dept	Real Property Agent, Sr

For the month of June 2016: 82 new Members entered the System, 31 terminations, 11 Members retired in the System, 8 Members removed (\$17,336.32), 4 D/E Option, 3 F Option, and 0 over 60% benefit.

**Motion:** Upon motion by Tim Burgess seconded by Glen Lee, the Board of Administration accepts and approved the Administrative Consent Agenda. The motion passed unanimously (5-0).

### **Final Report Audit**

Thomas Rey of CliftonLarsonAllen presented SCERS's 2015 Year-End Audited Financial Statements.

Mr. Rey stated this was the fourth year CliftonLarsonAllen (CLA) had performed the SCERS audit. He said that from year to year CLA has observed steady progress and improvements, that there were no significant findings, and they were providing an unqualified opinion.

Mr. Rey highlighted a few items from the audit and stated that the plan's net position, expressed as percentage of the total pension liability, was 64%. Mr. Rey also discussed the sensitivity of the net pension liability to changes in the discount rate used.

Mr. Walter stated that we should be proud of the audit and that no significant deficiencies or material weaknesses were found.

Mr. Burgess congratulated the staff for achieving good results on the audit.

Mr. Davis introduced Deontrae Sherrard SCERS's Accounting Services Supervisor, and thanked her for her team's work.

**Motion:** Upon motion of Tim Burgess seconded by Lou Walter, the Board of Administration accepted the 2015 Year-End Audited Financial Statements as presented by SCERS Staff and CliftonLarsonAllen, LLP. The motion passed unanimously (5-0).

### **Valuation Study and 2017 Actuarial Contribution Rate (ARC)**

Nick Collier from Milliman presented the 2017 Actuarial Valuation Study.

Mr. Collier stated that there is no bad news, which is good news from an actuary. He said the funding ratio has increased marginally from 66.0% to 66.5%. SCERS also had a small increase in the unfunded actuarial accrued liability from \$1.165B to \$1.2B.

There was an increase in average annual members' salaries of 4%. Active membership increased by 1.6% which helped with system funding. A new actuarial "experience study" will be done in 2018.

If all of the study's assumptions are met, SCERS is projected to achieve full funded status in 2043. There are fairly small increases of projected future contribution rates, shown at 90% confidence interval.

Mr. Walter asked if the investment rate of return is the biggest factor for the actuarial valuation. He also asked if SCERS is not achieving its assumed 7.5% rate of investment return, whether it should be lowered to 7.0%. He asked whether it is better to wait to make an adjustment or whether it is better to be more conservative and make an adjustment now?

Mr. Collier responded that 7.5% assumed rate of investment return is still on the low side, although some pensions do have lower assumed rates of return. Milliman's philosophy is if the rate of return is not realistic, they will recommend adjusting it but for now, SCERS is still within the norm. Mr. Collier acknowledged that if you wait too long, funding problems are harder to address but one does not want to be too reactionary either.

Mr. Burgess acknowledged that waiting too long will create a bigger problem but reacting prematurely puts pressure on the other side of City government which, together with employees, provides about \$180M funding every year.

Mr. Collier stated that for now, they did not take into consideration the new retirement tier. If a new tier is adopted, it will show up on SCERS's future normal cost. Benefit costs should gradually decrease, but there will not be a huge impact, certainly not in the short term.

**Motion:** Upon motion of Tim Burgess, seconded by Sherri Crawford, the Board of Administration accepted the January 1, 2016 Actuarial Valuation Report as presented by Milliman, and sets the 2017 Actuarial Contribution Rate (ARC) at 25.32%. The motion passed unanimously (5-0).

### **Credit Interest**

Mr. Davis stated that the revised Credit Interest Policy for Member Contributions was adopted at the June 9, 2016 Board meeting. The proposed board motion follows the adopted policy and sets the 2017 variable credit interest rate at 2.86% based on the average rate for the 30 year U.S. Treasury Bond from June 1, 2015 – May 31, 2016.

**Motion:** Upon motion of Tim Burgess, seconded by Sherri Crawford, the Board of Administration set the 2017 credit interest on all employee contribution received into the pension trust after December 31, 2011 at 2.86%. The motion passed 4-1 with Lou Walter voting no.

### **Administrative Committee Report – June 30, 2016**

#### **Resolution 99-1 (Funding Policy)**

Mr. Nakatsu stated that the Administrative Committee recommended that the Board repeal the funding policy from 1999. He stated that the policy is not relevant today and won't be relevant for many years.

**Motion:** Upon motion of Lou Walter, seconded by Jean Becker, the Board of Administration accepted the Administration Committee's recommendation to repeal Resolution 99-1 (Funding Policy). The motion passed unanimously (5-0).

### **Investment Committee Charter**

Mr. Nakatsu said the main change to the Investment Committee (IC) Charter was to change the quorum requirement from four to three members. The language for committee membership is also simplified. Rather than naming each of the members, the revised charter reflects that the committee will consist of six members named by the board

**Motion:** Upon motion of Lou Walter, seconded by Glen Lee, the Board of Administration accepted the Administration Committee's recommendation to adopt the revised Investment Committee Charter. The motion passed unanimously (5-0).

### **Administrative Committee Charter**

Mr. Nakatsu stated that there are a few changes to the Administrative Committee Charter.

One change is to remove the responsibility for legal/litigation matters. That responsibility should involve the entire Board rather than just the Administrative Committee.

The wording has also been revised for the committee's responsibility for an Executive Director (ED) Search. Previously it said that the Administrative Committee would conduct the search. The language is revised to say that the Administrative Committee will "direct" the search. The SCERS staff will be doing the legwork.

Mr. Nakatsu said that he has discussed the ED search process with Ms. Becker and some other Board members. While they are weary from the previous recruitment, we do not have much time before having to begin a new recruitment. We

have been working with FAS Contracting Services to begin looking at consultants to consider as recruiters. He said that it is hoped to have a recruiter on board by September 2016.

Mr. Burgess wanted to confirm that we will have a different recruiter than used with the previous search begun in 2015.

Mr. Nakatsu confirmed that the recruiter would be different.

Mr. Walter stated that he appreciated the work done extending Mr. Nakatsu's contract, and is pleased that Mr. Nakatsu has agreed to stay longer.

Mr. Walter said he wants to be more comfortable with any future recruitment process, particularly regarding greater involvement of all Board members in the process and greater transparency for them about the status of the recruitment. He believes the revised Administrative Committee Charter gets the board to where we want to be.

Mr. Nakatsu stated that Executive Director interviews would be after Thanksgiving and that we hope to have a new ED on-board after the first of the year. He emphasized the need to begin the process of getting a new recruiter started quickly.

Ms. Becker said that Mr. Nakatsu will begin searching for recruiters and will be drafting a schedule and presenting it at the July 28th Administrative Committee meeting.

Mr. Walter stated that this revised charter is the first step.

**Motion:** Upon motion of Jean Becker, seconded by Lou Walter, the Board of Administration accepted the Administration Committee's recommendation to adopt the revised Administrative Committee Charter. The motion passed unanimously (5-0).

## **Investment Committee Report – June 30, 2016**

### **PIMCO Total Return**

Mr. Smith stated that staff and NEPC have sufficient comfort to take PIMCO off watch. PIMCO has stabilized as an organization following the departure of Mr. Gross, which was the reason for the firm being placed on watch.

**Motion:** Upon motion of Lou Walter, seconded by Glen Lee, the Board of Administration accepted the Investment Committee's recommendation to remove the PIMCO Total Return strategy from watch status. The motion passed unanimously (5-0).

### **Diversifying Strategies**

Mr. Malinowski stated that George Emerson, Don Stracke and he presented the Investment Committee with information on the Diversifying Strategies asset class which has a 5% target allocation. He said that the goal of the asset class is to reduce sensitivity to economic growth and public equity markets, but not forego returns. SCERS staff and NEPC will be providing additional information on Diversifying Strategies and a manager recommendation at the July 28<sup>th</sup> Investment Committee.

Mr. Malinowski said that SCERS recently redeemed from a fund of hedge funds strategy managed by BlackRock. Mr. Malinowski stated that BlackRock had been SCERS's only allocation in Diversifying Strategies asset class. The motion in front of the Board today will lower the permissible range for the asset class and allow SCERS to remain in compliance with its adopted Investment Policy. The lower bound will be moved from 2% to 0% and by doing so enable staff to explore alternatives which, as noted earlier, will be presented at the next Investment Committee meeting.

**Motion:** Upon motion of Lou Walter, seconded by Jean Becker, the Board of Administration accepted the Investment Committee's recommendation to revise the lower bound of the rebalancing range for the Diversifying Strategies asset class from 2% to 0%. The motion passed unanimously (5-0).

### **Executive Director Report**

Mr. Nakatsu said that he wanted to address the statement that Mr. Kevin Clark brought up in public comments earlier in the meeting. He said the draft Plan 2/Cleanup ordinance has been reviewed by labor.

Mr. Burgess stated that the draft ordinance will be introduced by Council on Monday, July 18, 2016, and his committee will review it first on Wednesday, July 20, 2016.

Mr. Nakatsu said that relative to ARSCE's concern about SMC 4.36.550.B, staff deleted language that is confusing and inconsistent with law. The preceding section (SMC 4.36.545) requires the City to provide the moneys necessary to guarantee benefits payable to members, and we must otherwise comply with laws which have changes since 1949 when most of SMC 4.36 was adopted.

Mr. Seu stated that aside from the Plan 2 changes for future employees, which were negotiated by the City with Labor, that there are no substantive changes resulting from the proposed ordinance. Other than implementing Plan 2 for future employees, the proposed ordinance merely clarifies provisions and makes technical corrections.

Mr. Walter said that he would like a recital to clarify further the ordinance's intent and the no substantive changes are intended. He stated that when we are all gone the recital would be there to provide security to labor.

Mr. Burgess was agreeable and asked Mr. Seu to submit a revised recital prior to introducing the ordinance on July 18<sup>th</sup>.

### **Operations/Finance Report**

Mr. Davis reported that the Pension Administration System (PAS) implementation continues to go well. The Member Services group was half way through a six week training learning how to use the new tools and "soft" skills in customer service.

Mr. Davis introduced Deontrae Sherrard who is the Principal Accountant and Accounting Supervisor for SCERS. Ms. Sherrard stated that she has been with SCERS for four years. In the four years she has been with SCERS, the accounting department has instituted a lock box process, has implemented active payroll reconciliation, and partnered with the Investment Team.

***(10:21 a.m. - Tim Burgess left)***

**Adjourn Meeting – 10:22 a.m.**

**Motion:** Upon motion by Jean Becker, seconded by Glen Lee, the Board of Administration votes to adjourn the meeting. The motion passed unanimously (4-0)

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Susan Coskey, Board Secretary



**Seattle City Employees' Retirement System  
Board of Administration Meeting  
Seattle City Hall, Boards and Commissions Room, 600 Fourth Avenue, Seattle  
(206) 386-1293**

**Minutes, Thursday, August 11, 2016**

**BOARD MEMBERS PRESENT:** Tim Burgess (Chair), Lou Walter, Robert Harvey, Jr., Jean Becker, Glen Lee, Sherri Crawford, Susan Coskey

**SCERS STAFF PRESENT:** Ken Nakatsu, Jeff Davis, Jason Malinowski, Jill Johnson, Cecelia Chen, Nina Melencio

**OTHERS PRESENT:** Tom Kirn (FAS), James Warren

**Call to Order:**

Tim Burgess, Board Chair, called the meeting to order at 9:03 a.m.

**Public Comment:**

There was no public comment.

**Administrative Consent Agenda:**

**Minutes:**

Provided in the Retirement Board packet was the minutes from the July 14, 2016 Retirement Board regular meeting.

**Ratification of Retired Payroll, Office Payroll, Other Payments and Withdrawals**

<b>Service</b>	\$13,047,994.16
<b>Beneficiary</b>	926,468.86
<b>Disability</b>	<u>69,067.13</u>
<b>Pension Payroll – PPE July 2016</b>	<b>\$14,043,530.15</b>
<b>Office Payroll – PPE July 12 and 26, 2016</b>	<b>\$ 101,040.67</b>
<b>Vouchers Processed – July 2016</b>	
• Expert and Consultant Services	\$ 94,931.75
• Investment Management Fees	\$ 468,608.52
• Interdepartmental Charges	\$ 130,215.70
• Miscellaneous	\$ 26,273.77

**Immediate Withdrawals of Contributions for the month of July 2016:**

MEMBER	Dept Name	Position
Burns,Ryan G	Parks Dept	Seattle Conserv Corps Supv
Crandall,David B	Parks Dept	Rec Attendant
Crippen,Luke A	PublicUtil	Accountant
Davis,Gary M	Sea Center	Stage Tech *
Dean,Michael A	FAS	Rates Mgmt Anlyst,Sr
Deccio,Angela M	Parks Dept	Aquarium Biologist 1
Dyer,Kacey J	Police	Pol Comms Dispatcher I

Halsey,Stephen J	Library	Dir, Marketing&Online Svc
Ingalls, Christie J	City Light	Civil Engr,Assoc
Mahling,Dirk E	Seattle IT	Executive3
Markley,Corrina	City Light	Mgmt Sys Anlyst,Sr
Mase,Apollinaire M	City Light	Elecl Engr,Asst I
Mayer,Edward	Parks Dept	Rec Attendant
Quesada,Kathleen A	SDCI	Permit Tech,Sr
Scarlett,Christine A	Human Svcs	Manager3,Exempt
Scarlett,Christine A	Human Svcs	Manager3,Exempt
Summers,Michael P	Police	Pol Comms Dispatcher II
Sutton,Janet R	FAS	Info Technol Prof A *
Sutton,Janet R	FAS	Info Technol Prof A *
Wolfgram,Jennifer L	FAS	Tax Auditor

**Withdrawals for a total of: \$639,569.92**

Bold entries (if any) above indicate refund payment made to beneficiary of a member dying while in active status

### Ratification of Service Retirements

The following list represents the retirements that have been processed since the last Retirement Board meeting.

Retiree	RetireDt	Age	Years	Days	DeptName	Position
Andersen,Cathleen J	6/2/2016	63	24	190.45	Parks Dept	Manager2,Human Svcs
Berry,James A	6/2/2016	67	24	143.28	SDOT	Maint Laborer,Sr-Traffic
Brautigam,Jack A	6/15/2016	65	16	254.12	City Light	Plng&Dev Spec,Sr
Choi,Sarah Si Heung C	6/2/2016	65	14	267.68	Human Svcs	Counslr
Cole,Rochelle D	6/7/2016	62	8	64.33	SeaTech	Info Technol Prof B
Curtis,Anne T	6/3/2016	59	23	293.63	#N/A	#N/A
Escarez,Teofila M	6/15/2016	66	30	167.68	City Light	Cust Svc Rep
Gibbons,Gary L	6/4/2016	57	24	289.31	Parks Dept	Capital Pjrts Coord,Sr
Hairston,Patricia A	6/2/2016	68	8	44.75	NeighbDept	StratAdvsr1,General Govt
Hoffer,Dennis W	6/15/2016	62	10	179.35	PublicUtil	Forest Maint Wkr,Sr
Huggins,Larry R	6/15/2016	69	13	11	SDOT	Manager3,P&FM
Johanson,Thomas C	6/29/2016	69	46	180.5	PublicUtil	Civil Engrng Spec,Sr
Johnson,Daniel D	6/22/2016	59	26	47.99	Parks Dept	Executive2
Kuhnly,Steven W	6/2/2016	62	37	353.5	City Light	Cblspl CC-Asg C Coord
Kulzer,Louise R	6/2/2016	69	13	152.43	PublicUtil	Manager3,Engrng&Plans Rev
Kuris,Leslie E	6/8/2016	68	8	229.44	SDOT	Trng&Ed Coord
Llarenas,Teresita	6/6/2016	60	25	317.89	Vested	Util Act Rep I
Mah,Sherman	5/31/2016	54	3	140.9	Vested	#N/A
Maxwell,Patricia D	6/14/2016	69	26	311.86	Parks Dept	Rec Cntr Coord
McKenzie,Rose M	6/24/2016	66	11	35.42	Vested	Janitor-Library
Mercer,Rosa L	6/5/2016	63	5	356.78	Muni Court	Court Clerk
O'Brien,Patricia M	6/29/2016	66	24	261.86	PublicUtil	StratAdvsr2,General Govt
Peterson,Joan C	6/10/2016	63	19	174.58	Arts&Cult	Arts Prgm Spec
Quinn,Joanne T	6/10/2016	61	14	172.71	Exec Dept	Com Dev Spec,Sr
Steimle,Roger L	6/22/2016	60	21	98.92	Vested	Lnwkr
Tacardon,Charlie A	6/2/2016	53	25	266.68	SeaTech	Telecom Syst Installer,Sr
Troisi,Victoria M	6/4/2016	61	24	337.38	SDOT	Admin Staff Anlyst
Turner,Mary E	6/2/2016	65	37	239.66	SDOT	Public Relations Supv





**Seattle City Employees' Retirement System  
Board of Administration Meeting  
Seattle City Hall, Boards and Commissions Room, 600 Fourth Avenue, Seattle  
(206) 386-1293**

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For the month of July 2016: 77 new Members entered the System, 38 terminations, 28 Members retired in the System, 6 Members removed (\$14,131.63), 4 D/E Option, 5 F Option, and 4 over 60% benefit.

**Motion:** Upon motion by Tim Burgess seconded by Robert Harvey, Jr., the Board of Administration accepted and approved the Administrative Consent Agenda. The motion passed unanimously (6-0).

### **Administrative Committee Report – July 28, 2016**

Ken Nakatsu stated that there were three items discussed during the Administrative Committee (AC) meeting. The AC wrapped up the Board self-evaluation process, discussed the Executive Director (ED) recruitment process, and discussed the Private Funds Disclosure Exemption Policy.

Jean Becker, AC Chair, said that the committee developed a Board self-evaluation questionnaire with the assistance of consultant, Steve Boyd. The overall ratings of the Board decision making process and committee work structure were positive. Ms. Becker said that the responses to the questionnaire reflected that board members felt SCERS staff was doing good work for the Board, that staff was providing good information and that communication between the SCERS staff and Board was effective. The Board appreciated what has been accomplished by staff in the last few years.

Ms. Becker stated there were several areas that Steve Boyd directed the Board's attention to in his recommendations.

Mr. Boyd recommended that annual evaluations of the Executive Director be completed.

In his recommendations, Mr. Boyd also suggested clarifying the Board and staff roles for strategic planning, which Ms. Becker stated should be done next year when the new ED is on board.

Other recommendations include the Board benefiting from a deeper understanding of all facets of SCERS, including retirement operations.

Mr. Walter stated that Board members should not get into the minutia of directing staff. He said he has always worried about that and the Board should function at a higher level, rather than running the show.

Ms. Coskey said that she agreed with Mr. Walter and that the current balance for her seemed to be out of balance. She would encourage Mr. Boyd to work with the Board. She stated that if she were in staff's shoes she would feel that she was micromanaged. Ms. Coskey stated that the Board has some growing room.

Mr. Burgess stated that he saw the survey results and Mr. Boyd's comments. Mr. Burgess related that his first term on the Board was very different. He said that SCERS has now has an excellent staff and they have enhanced communication with members. There is a huge IT project which is on time and within budget. Mr. Burgess stated that he was delighted when he saw the results of the survey. He said that we can always improve and he is grateful of Mr. Nakatsu's leadership and that of the staff. Mr. Burgess stated that we are on the right path and moving in the right direction.

Relative to hiring a new Executive Director, Mr. Nakatsu stated that Alliance Resource Consulting has been engaged as SCERS's recruiter. They have experience in Arizona, Illinois, and especially in California. NEPC is familiar with the firm.

Mr. Nakatsu said that all board members are scheduled to meet with Alliance and the recruitment is scheduled to begin around Labor Day. Alliance will come back to the Board on October 27<sup>th</sup> with their initial search results and recommendations for more in-depth screening.

Interviews are planned for after Thanksgiving. We will most likely extend the December 8<sup>th</sup> Board meeting to do a half day of interviews and do the remainder the next day on December 9<sup>th</sup>.

## **Private Funds Disclosure Exemption Policy**

Certain private fund information for SCERS is now exempt from public disclosure, as provided recently by the Washington State Legislature (RCW 42.56.270(26)). Jason Malinowski stated that the proposed policy speaks to the process that staff will employ when a public disclosure request for private fund information is received. Staff will work with the City Attorney's office on specific requests. The Washington State Investment Board (WSIB) has a similar policy.

Mr. Nakatsu stated that SCERS has a strong interest in transparency and will disclose as much information as we can without resulting in loss to SCERS members, the providers of the information, or the public.

**Motion:** Upon motion of Tim Burgess, seconded by Jean Becker, the Board of Administration accepted the Administration Committee's recommendation and adopted the Private Funds Disclosure Exemption Policy. The motion passed unanimously (7-0).

## **Investment Committee Report – July 28, 2016**

Mr. Malinowski stated that the July 28, 2016 Investment Committee (IC) meeting focused entirely on the Diversifying Strategies asset class.

Tim Bruce from NEPC gave a presentation on Alternative Beta, also known as Long/Short Style.

Mr. Malinowski said he and George Emerson presented staff's recommendation to invest \$50 million in a custom fund for SCERS managed by AQR Capital Management (AQR).

**Motion:** Upon motion of Tim Burgess, seconded by Jean Becker, the Board of Administration accepted the Investment Committee's recommendation and approved an investment of \$50 million in a custom fund for Seattle City Employees' Retirement System managed by AQR Capital Management, pending satisfactory legal review. The motion passed unanimously (7-0).

## **Executive Director Report**

Mr. Burgess stated that on Monday, August 8, 2016 City Council unanimously passed the new Plan 2 Retirement System program for employees hired on or after January 1, 2017, a Resolution adopting the Annual Required Contribution (ARC) for the City, and a Resolution concurring with the Board in setting the Credit Interest rate for employees contributions made after 2011 on their to the retirement system.

Jeff Davis reported that the Electronic Content Management (ECM) System will be completed by the end of 2016.

Mr. Harvey asked Mr. Davis if he anticipated any hurdles bringing the SCERS Plan 2 on line. Mr. Davis responded that the City has a payroll system that has many different owners, including SCERS. The piece that SCERS requires is fairly simple. The piece that others require is not. SCERS staff met with the other owners the week of August 1<sup>st</sup>. Mr. Davis is confident that the payroll system work that SCERS staff needs will be completed soon and that we are looking to test that work in October.

Mr. Harvey asked Ms. Coskey if she will need to hire more staff for the SCERS Plan 2 implementation. Ms. Coskey replied that she did not think it will have an impact on staffing. Ms. Coskey said that getting to the new Plan was a huge effort for Labor, SCERS, and everyone else involved. She appreciated Lou Walter's leadership. She stated the new Plan 2 sets up a different framework but it still is a significant benefit for employees, at lower cost to them and the City. Ms. Coskey thanked SCERS staff for their work.

Mr. Davis reviewed the SCERS dashboard. He stated that Members Services staff wrapped up a six week training program to go over processes, tools, and customer services skills. The training was well received by staff and all of them now have a consistent set of information.



**Seattle City Employees' Retirement System  
Board of Administration Meeting  
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The Pension Administration System (PAS) project's health is still "green".

Mr. Burgess asked about the cultural climate survey since the last one was done in December 2015. Mr. Davis replied that the department's One Team committee is updating the survey and the survey should be out in the next month.

Ms. Coskey asked about bias training. Mr. Davis replied that some of that was conducted during the Member Services training but that staff will look at that as an organization as a whole.

**Adjourn Meeting**

The meeting adjourned at 9:45 a.m.

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Susan Coskey, Board Secretary



**Seattle City Employees' Retirement System  
Board of Administration Meeting  
Seattle City Hall, Boards and Commissions Room  
(206) 386-1293**

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**Minutes, Thursday, September 8, 2016**

**Board Members Present:** Tim Burgess (Chair), Lou Walter (conference call), Jean Becker, Glen Lee (arrived at 9:14 a.m.), Sherri Crawford, Susan Coskey (arrived at 9:07 a.m.)

**SCERS Staff Present:** Ken Nakatsu, Jeff Davis, Jason Malinowski, Tony Smith, Jill Johnson, Cecelia Chen, Nina Melencio

**Others Present:** Carlton Seu (Seattle City Attorney's Office), Mike Monaco (Song Mondress Law Firm), Tom Kirn (CBO), George Emerson (FAS),

**Call to Order:**

Tim Burgess, Board Chair, called the meeting to order at 9:03 a.m.

**Public Comment:**

There was no public comment.

**Administrative Consent Agenda:**

Provided in the Retirement Board packet were the minutes from the August 11, 2016 Retirement Board regular meeting.

Ratification of Retired Payroll, Office Payroll, Other Payments and Withdrawals

<b>Service</b>	\$13,145,713.26
<b>Beneficiary</b>	934,925.81
<b>Disability</b>	<u>76,147.44</u>
<b>Pension Payroll – PPE August 2016</b>	\$14,156,786.51
<b>Office Payroll – PPE August 9 and 23, 2016</b>	\$ 207,528.26
<b>Vouchers Processed* – August 2016</b>	
• Expert and Consultant Services	\$ 109,134.45
• Investment Management Fees	\$ 85,561.20
• Interdepartmental Charges	\$ 126,650.63
• Miscellaneous	\$ 42,824.70
•	

\*August 2016 Financial statement adjustments close on 9/9/2016. Information provided were what the Accounting Section had to date.

**Immediate Withdrawals of Contributions for the month of August 2016:**

<b>NAME</b>	<b>Dept Name</b>	<b>Position</b>
Alexander, Judith E	Parks Dept	Cashier
Aparis, Eileen Y	HSD	Youth Emp&Training
Baebler, Scott A	Sea Center	Manager1, CSP&P
Barrett, Travis T	FieldOps-South	Lineworker
BORST, BRAD A	Library	Dev Ofcr
Chase, Stephanie D	Library	Dir, Public Svcs
<b>Daniel, Florida</b>	<b>beneficiary</b>	<b>beneficiary</b>
Fotheringham, Tyler W	City Light	Line C CC
GALVAN, MARIBEL	Human Svcs	Counslr
Goldfinger, Joshua D	Human Svcs	PrjFunds & Agreements
Haas, Clarissa M	Ravenna-Eck CC	Rec Attendant
Hall, Jeffrey M	Parks Dept	Util Laborer
Hartshorne, Sheila F	FAS	Mgmt Sys Analyst, Asst
Harvey, Teresa L	Info Tech Ops	Mgmt Sys Analyst, Sr
Hoard, Sydney L	Seattle Center	Usher
Hopkins, Renee J	Police Foundation	StrAdv2, Gen Govt
Hopkins, Renee J	Police Foundation	StrAdv2, Gen Govt
Marx, Michelle L	SDOT	StraAdvsr1
Otis, Jennifer M	PublicUtil	Civil Engr, Assoc
Price, Tiffany L	City Light	Info Tech Prof B-BU
Ransaw, Tomica N	PublicUtil	Admin Spec III-BU
Richter, Michael J	Human Svcs	Plng&Dev Spec, Sr
<b>Robel, Charles E</b>	<b>beneficiary</b>	<b>beneficiary</b>
<b>Robel, David W</b>	<b>beneficiary</b>	<b>beneficiary</b>
Robinson, Christopher A	Seattle Center	Laborer
Sanchez, Maureen E	Parks Dept	Envrmntl Analyst, Sr
Smith, Rowena P	SDOT	Civil Engr, Assoc
Southard, Ryan M	City Light	Plng&Dev Spec, Sr
Stebbins, Micki O	City Light	Lineworker
Teigen, Mons P	N. Teen Life Center	Rec Leader
Truong, Phuonganh T	Shelving Operations	Page
Vernig, John R	Parks Dept	Maint Aide
White, Emily M	CBO	Admin Spec III
Wortman, Thomas M	Police	Latent Print Examiner

**Withdrawals for a total of: \$840,827.19**

Bold entries (if any) above indicate refund payment made to beneficiary of a member dying while in active status

c. Ratification of Service Retirements

The following list represents the retirements that have been processed since the last Retirement Board meeting.

Retiree	RetireDt	Age	Yrs	Days	DeptName	Position
Aana,Leialoha M	7/2/2016	56	25	226.25	Police	Pol Comms Dispatcher I
Anderson,Kathleen B	7/8/2016	63	9	20.38	SeaTech	Info Technol Prof A,Exempt
Batayola,Felipe V	7/6/2016	66	27	316	City Light	Elctn-Con CC
Bennett,Stephanie J	7/8/2016	70	8	328.64	Law Dept	Admin Spec II
Bradish,Thomas M	7/5/2016	63	29	364.3	City Light	Rights-Of-Way Maint Wkr
<b>Curry,Stephen C</b>	<b>7/2/2016</b>	<b>73</b>	<b>46</b>	<b>101</b>	<b>#N/A</b>	<b>#N/A</b>
<b>Dunlap,Margaret J</b>	<b>7/27/2016</b>	<b>66</b>	<b>10</b>	<b>11.89</b>	<b>Vested</b>	<b>Rec Cntr Coord</b>
<b>Esterly,Janice</b>	<b>7/6/2016</b>	<b>71</b>	<b>10</b>	<b>87.14</b>	<b>Muni Court</b>	<b>Prob Counslr-Asg Pers Recog</b>
Forch Jr,Bobby T	7/14/2016	60	24	179.21	Vested	Manager2,Engrng&Plans Rev
Gil,Ernesto	7/5/2016	52	26	36.2	SDOT	Truck Drvr,Heavy
Gordon,Karen S	7/2/2016	60	32	173.5	NeighbDept	Manager2,General Govt
<b>Heppner,Dale C</b>	<b>7/13/2016</b>	<b>69</b>	<b>44</b>	<b>53.49</b>	<b>SDOT</b>	<b>Bridge Op</b>
<b>Jacobson Jr,Frank A</b>	<b>7/13/2016</b>	<b>66</b>	<b>44</b>	<b>204.87</b>	<b>PublicUtil</b>	<b>Auto Engr,Sr</b>
<b>Jessen,Larry</b>	<b>7/6/2016</b>	<b>70</b>	<b>39</b>	<b>177.07</b>	<b>SDCI</b>	<b>Elecl Inspector,Sr(Expert)</b>
<b>Johnson,Carol A</b>	<b>7/21/2016</b>	<b>62</b>	<b>9</b>	<b>359.75</b>	<b>Vested</b>	<b>Camp Svc Aide,Sr</b>
Kuwamoto,JoEllen	7/13/2016	59	30	286.06	CBO	StratAdvsr2
Manhas,Rajinder S	7/1/2016	68	8	51.74	Vested	Executive3
Marple,Teresa M	7/6/2016	61	19	357.83	Police	Pol Comms Dispatcher II
<b>Mitchell,Katie A</b>	<b>7/13/2016</b>	<b>68</b>	<b>34</b>	<b>305</b>	<b>Parks Dept</b>	<b>Carpenter,Sr</b>
Moscou,Jacqueline D	7/29/2016	64	13	75.17	Vested	Publc/Cultural Prgms Spec,Sr
O'Brien,Marion R. N.	7/30/2016	65	10	354.43	Vested	#N/A
<b>Pageler,Margaret A</b>	<b>7/1/2016</b>	<b>75</b>	<b>11</b>	<b>184</b>	<b>Vested</b>	<b>Councilmember</b>
<b>Pfeiffer,Steven D</b>	<b>7/6/2016</b>	<b>65</b>	<b>31</b>	<b>187.78</b>	<b>SDCI</b>	<b>StratAdvsr2,Engrng&amp;Plans Rev</b>
<b>Plumb,Terrance M</b>	<b>7/9/2016</b>	<b>68</b>	<b>15</b>	<b>336.33</b>	<b>SDOT</b>	<b>Capital Prjts Coord,Asst</b>
<b>Prieto,Manuel P</b>	<b>7/2/2016</b>	<b>60</b>	<b>15</b>	<b>271.02</b>	<b>Sea Center</b>	<b>Carpenter</b>
<b>Rood,Timothy W</b>	<b>7/5/2016</b>	<b>66</b>	<b>19</b>	<b>20.11</b>	<b>SDOT</b>	<b>Transp Plnr,Assoc</b>
Spexarth,Kristen C	7/6/2016	68	11	243.33	Parks Dept	Gardener
Thompson,Bonnie E	7/6/2016	67	7	320.61	Parks Dept	Personnel Spec,Asst
Traxler,Maureen A	7/22/2016	63	26	186.35	SDCI	StratAdvsr2,Engrng&Plans Rev
<b>Webb,Kim J</b>	<b>7/2/2016</b>	<b>61</b>	<b>26</b>	<b>163.62</b>	<b>FAS</b>	<b>Spay&amp;Neuter Tech</b>
Wheeler,Ronald W	7/7/2016	62	12	243.5	Vested	#N/A
Whittemore,Ronald J	7/19/2016	66	14	227.95	Vested	Civil Engrng Spec Supv

For the month of August 2016: 53 new Members entered the System, 50 terminations, 32 Members retired in the System, 16 Members removed (\$29,480.14), 3 D/E Option, 1 F Option, and 2 over 60% benefit. Bold entries (if any) above indicate 2x match.

**Motion:** Upon motion by Lou Walter, seconded by Jean Becker, the Board of Administration accepted and approved the Administrative Consent Agenda. The motion passed unanimously (4-0).

## **ESG Quarterly Report**

Jill Johnson and Jason Malinowski reported on the third quarter 2016 Environmental, Social, and Governance (ESG) update.

Mr. Malinowski reported that the Seattle Human Rights Commission (SHRC) passed a resolution calling on SCERS to “divest from companies that profit from or supply a product directly or indirectly used in war crimes or crimes against humanity, or create a product to allow a state body to commit a war crime or crime against humanity, or directly commit a crime against humanity.” Mr. Malinowski stated that SCERS has not received a formal proposal as required by the ESG policy.

Mr. Malinowski also reported that Friends of the Earth had sent a second letter to SCERS reiterating their concerns with Dimensional Fund Advisors (DFA) investments in palm oil companies. They did not formally send a proposal to take any specific action but indicated that DFA was not adhering to the Principles for Responsible Investing (PRI). DFA disagrees and SCERS staff’s review supported DFA.

In industry developments, CalSTRS has decided to commit \$2.5 billion to a low carbon index strategy within their public equity portfolio.

### ***(9:07 a.m. – Susan Coskey arrived)***

Ms. Johnson reported on SCERS positive action strategy. She stated that SCERS had joined other members of Ceres’ Investor Network on Climate Risk in letters to the Securities and Exchange Commission, asking them to improve their enforcement of climate risk disclosure.

Ms. Johnson stated that she and Mr. Malinowski met with Michelle Edkins, BlackRock’s Head of Investment Stewardship, to learn more about BlackRock’s corporate governance approach and inquire about the apparent inconsistency between BlackRock’s proxy voting record and comments by their CEO, Larry Fink, that ESG considerations are important to generate sustainable returns. Ms. Johnson and Mr. Malinowski also met with Rahki Kumar, State Street Global Advisor’s Head of Corporate Governance to learn about State Street’s proxy voting and engagement practices.

Mr. Malinowski introduced the Institutional Shareholder Services (ISS) Governance Risk Report for the reporting period from April 1, 2016 to June 30, 2016. SCERS utilizes the ISS report to track how its managers are voting proxies in its public equity separate accounts and commingled fund investments.

Ms. Johnson reviewed the reports for SCERS’s two passive managers, Rhumblin and BlackRock.

Ms. Johnson said that Rhumblin manages a separate account for SCERS, which allows SCERS to direct the manager on how to vote proxies. The ISS report shows that Rhumblin’s proxy voting is consistent with the ISS Public Funds Policy that SCERS adopted in 2015 to be more supportive of ESG considerations.

### ***(9:14 a.m. Glen Lee arrived)***

Ms. Johnson said that SCERS has an investment in a BlackRock commingled fund, so SCERS does not have a say on how they vote but does have an interest in how they do so. The ISS report shows that BlackRock generally votes with the management of companies and has been less supportive of ESG considerations than either the ISS Public Fund policy or ISS Standard policy. Ms. Johnson gave an example of recent shareholder proposals at ExxonMobil and Chevron that would have required them to conduct climate change stress tests. BlackRock voted against both proposals, which were ultimately unsuccessful. ISS and State Street Global Advisors both supported the shareholder proposals at ExxonMobil and Chevron.

Mr. Burgess asked if there would be risk introduced by moving from BlackRock to another manager and if it would take a long time.

Mr. Malinowski replied that there would be little risk and it would take approximately 3 months. Mr. Burgess asked about the cost. Mr. Malinowski responded that the fees would be comparable to other managers.

Ms. Becker asked about the size of other managers. Mr. Malinowski replied that the passive equity industry is dominated by BlackRock, Vanguard and State Street and all are of similar size.

Mr. Burgess asked when SCERS hired BlackRock. Mr. Smith responded that this occurred in 2012.

Mr. Malinowski asked if the Board wanted staff to explore alternatives to BlackRock.

Mr. Burgess responded that he personally felt the Board should consider it if there was no risk or no cost and assuming no burden, although he is not advocating for a particular manager.

Ms. Johnson said that staff is still monitoring BlackRock. Recently, there was an article in which BlackRock abstained from voting for an ExxonMobil director, which staff sees as a step in the right direction.

Mr. Burgess asked staff to bring for the December ESG update a description of why BlackRock was chosen in 2012 over the other managers and if that decision should be reevaluated given ESG considerations. Ms. Coskey also requested that staff bring copies of the ISS policies.

The Board went back to the discussion of the Seattle Human Rights Commission (SHRC) ESG request. Mr. Burgess asked if SHRC was aware of the formal procedure to have the SCERS Board consider a proposed action. Mr. Lee replied that his office sent SHRC both the SCERS ESG policy and a description of the process for having the Mayor's office examine an issue.

Mr. Seu stated that he read through the SHRC resolution recently and that SHRC was cognizant of SCERS's ESG policy.

### **Investment Committee Report – August 25, 2016**

Mr. Malinowski reported that there were no motions at the August 25, 2016 Investment Committee meeting.

NEPC provided two different educational segments. One on SCERS's investment performance and a second briefing on manager cost effectiveness and fees.

Mr. Malinowski stated while SCERS's investment performance over the past 10 years is below our actuarial assumed rate of investment return, that is the case for many pension funds and that, relative to our peers, the trend is positive. For the past 10 years, SCERS's performance is in the lowest decile. For the past 3-5 years, our performance has risen to the median.

Mr. Burgess said that SCERS's performance over the past three years has improved significantly. Mr. Malinowski acknowledged the improvement but cautioned that we (and many others) are falling below our assumed rate of return of 7.5%. He said that over the near-term future, that performance is expected to be lower than the recent past and not achieve the actuarial assumed rate of return.

Mr. Burgess stated that the conundrum we are in is if we lower the assumed rate of return, that it has a dramatic effect on the actuarial Annual Required Contribution (ARC) and the City's budget. If we don't, then we might be underestimating our future pension liability.

Mr. Lee questioned whether this is the case, particularly over the long term. He said that NEPC expects investment returns over the next 6-7 years to be challenging, but understood that the following 23 years are expected to be better. He understood that over 30 years a 7.5% assumed rate of return is reasonable, but in any event, can be examined when the next actuarial experience study is done in 2018.



Mr. Malinowski also mentioned that NEPC annually revises its capital market expectations and that we will review them again in February.

Mr. Davis mentioned that the assumed rate of return used by pension funds has been trending downward but that Milliman has indicated recently that SCERS's assumed rate of return is in the middle.

Mr. Malinowski said that NEPC also did a fee analysis for SCERS. The general observed that SCERS's overall fees tend to be lower than its other clients, although our fees are likely to increase because of increasing private fund investments in real estate, infrastructure, private equity and private credit. NEPC also cautioned that the lowest cost portfolio is not necessarily the best portfolio.

### **Executive Director Report**

Mr. Nakatsu updated the Board on the Executive Director search. The job has been advertised on the City of Seattle website and the Alliance Resource Consulting, LLC website.

Some of the comments from Ms. Coskey and Ms. Becker were integrated in the job posting before it was advertised. As the Board requested, we have submitted a compensation review request for the three senior management positions in SCERS since we are in competition with foundations and endowments for staff. The Executive Director compensation will also be reviewed. The compensation report will be completed by the October 27, 2016 meeting with the Board and the recruiters.

Mr. Davis reported that operations staff has been busy with the normal work activities and with "sprints" for developmental work for the new Pension Administration System (PAS). Most recently, staff is focused on key projects such as the back-file conversion, imaging the physical files, and ensuring that all data is loaded properly into the new PAS. These ECM projects should be completed by the end of the year. Staff is also working on data cleanup.

Mr. Davis stated that the retirement estimates are creeping up a little due to the involvement of all staff working on the Pension Administration System implementation, peer auditing, and the new calculation tool. Peer auditing was done previously by Cynthia Scheiderer and Lindsay Reid. It will now be done by the retirement specialists which will free up Ms. Scheiderer and Ms. Reid for other responsibilities.

The 2015 Annual Report has been completed. A hard copy will be provided at the next board meeting. It has been uploaded to the retirement website.

The Office of Civil Rights will do a presentation to the Board at the November 10, 2016 meeting. Due to time constraints, they are unable to present on "implicit bias."

### **Adjourn Meeting**

The meeting was adjourned at 10:16 a.m.

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Susan Coskey, Board Secretary



**Seattle City Employees' Retirement System  
Board of Administration Meeting  
Seattle City Hall, Boards and Commissions Room  
(206) 386-1293**

**Minutes, Thursday, October 13, 2016**

**Board Members Present:** Tim Burgess (Chair), Lou Walter (conference call), Robert Harvey, Jr., Jean Becker (arrived at 9:13 a.m.), Glen Lee, Sherri Crawford

**SCERS Staff Present:** Ken Nakatsu, Jeff Davis, Jason Malinowski, Tony Smith, Jill Johnson, Cecelia Chen, Claire Foster

**Others Present:** Mike Monaco (Song Mondress Law Firm), George Emerson (FAS), Valerie Paganelli, James Warren

**Call to Order:**

Tim Burgess, Board Chair, called the meeting to order at 9:00 a.m.

**Public Comment:**

There was no public comment.

**Administrative Consent Agenda:**

Provided in the Retirement Board packet were the minutes from the September 8, 2016 Retirement Board regular meeting.

Ratification of Retired Payroll, Office Payroll, Other Payments and Withdrawals

<b>Service</b>	\$13,221,634.06
<b>Beneficiary</b>	933,811.97
<b>Disability</b>	<u>72,720.34</u>
<b>Pension Payroll – PPE September 2016</b>	<b>\$14,228,166.37</b>
 <b>Office Payroll – PPE September 6 and 20, 2016</b>	 <b>\$ 202,158.58</b>
 <b>Vouchers Processed –September 2016</b>	
• Expert and Consultant Services	\$ 138,915.17
• Investment Management Fees	\$ 73,412.02
• Interdepartmental Charges	\$ 124,882.04
• Miscellaneous	\$ 21.05

**Immediate Withdrawals of Contributions for the month of September 2016:**

NAME	Dept Name	Position
Angle,Jami M	Sea Center	Admin Spec II-BU
Belue,Matthew A	Vested	Animal Control Ofcr I

Belue,Matthew A	Vested	Animal Control Ofcr I
Grace,James T	City Light	Cable Specialist
<b>Haile,Selamawit R</b>	<b>Vested</b>	<b>Power Analyst, Sr</b>
Heinz-Query,Katrina S	Police	Victim Advocate
Louie,Susan L	Library	HR Specialist
Paladino,Kayleigh E	FAS	Animal Control Ofcr I
Pitre,Shanise Rakel	Parks	Cashier
Sanchez,Maureen E	Parks	Env Analyst, Sr

**Withdrawals for a total of: \$364,589.78**

Bold entries (if any) above indicate refund payment made to beneficiary of a member dying while in active status

c. Ratification of Service Retirements

The following list represents the retirements that have been processed since the last Retirement Board meeting.

Retiree	RetireDt	Age	Yrs	Days	DeptName	Position
<b>Abuan,Julius B</b>	<b>8/10/2016</b>	<b>65</b>	<b>25</b>	<b>195.96</b>	<b>Parks Dept</b>	<b>Maint Laborer</b>
Beaty,Keith E	8/18/2016	59	28	211.34	Sea Center	Stage Tech,Lead
Behrndt,David	9/2/2016	63	30	195.4	FAS	Manager1,Fin,Bud,&Actg
Bills,Lane E	9/7/2016	64	15	255.29	FAS	Auto Mechanic
Blythe,Giselle G	9/7/2016	64	20	342.72	Parks Dept	Gardener
<b>Bruk,Elena S</b>	<b>9/2/2016</b>	<b>70</b>	<b>16</b>	<b>198</b>	<b>Human Svcs</b>	<b>CounsIrr</b>
<b>Christian,Clint A</b>	<b>9/6/2016</b>	<b>75</b>	<b>43</b>	<b>152</b>	<b>City Light</b>	<b>Jrnywkr In Chg</b>
Cline,Robert S	8/10/2016	66	31	95.79	LegCtyCncl	StratAdvsr-Legislative
<b>Coto,Jose R</b>	<b>9/2/2016</b>	<b>64</b>	<b>10</b>	<b>76.37</b>	<b>Parks Dept</b>	<b>Laborer</b>
<b>Croll,Timothy C</b>	<b>9/7/2016</b>	<b>62</b>	<b>36</b>	<b>74.5</b>	<b>PublicUtil</b>	<b>Executive2</b>
Devine,Robert E	8/10/2016	62	29	108.82	City Light	Admin Support Supv-BU
<b>Dexter,Sara E</b>	<b>8/5/2016</b>	<b>60</b>	<b>14</b>	<b>35.45</b>	<b>Vested</b>	<b>Cook</b>
Etter,Rita A	8/3/2016	60	32	118.29	Police	Tenprint Supv
Farmer,Steven M	9/7/2016	59	20	19.64	Library	Bldg Maint Svcs Supv
<b>Flores,Larry R</b>	<b>8/2/2016</b>	<b>69</b>	<b>29</b>	<b>142.47</b>	<b>SDOT</b>	<b>Personnel Spec,Sr</b>
Garrett,Roseanne M	8/6/2016	65	17	180.51	SDCI	Admin Staff Asst
<b>Grayson,Philip A</b>	<b>8/10/2016</b>	<b>63</b>	<b>36</b>	<b>128.5</b>	<b>City Light</b>	<b>Line C CC</b>
<b>Guieb-Coe,Faye M</b>	<b>8/10/2016</b>	<b>65</b>	<b>29</b>	<b>225.85</b>	<b>Police</b>	<b>Admin Spec I-BU</b>
<b>Hanson,Linda S</b>	<b>9/7/2016</b>	<b>62</b>	<b>22</b>	<b>103.45</b>	<b>PublicUtil</b>	<b>Util Act Rep I</b>
Harvey,John M	9/7/2016	67	20	13.98	City Light	Elecl Svc Rep,Sr
<b>Higashi,Christine M</b>	<b>9/7/2016</b>	<b>65</b>	<b>23</b>	<b>209.77</b>	<b>Library</b>	<b>Public Svc Prgms&amp;Events Mgr</b>
Hoffman,Raymond F	8/24/2016	60	25	358.01	PublicUtil	Executive4
<b>Javidando,Ella C</b>	<b>9/3/2016</b>	<b>57</b>	<b>35</b>	<b>131.16</b>	<b>Muni Court</b>	<b>Court Clerk</b>
Kelly,Cheryl M	6/30/2016	65	0	234.84	Vested	Usher *
Miramontez,Johnny A	9/7/2016	61	29	270.86	PublicUtil	Pmp Stat Maint Leadwkr

Omoto,Craig M	9/7/2016	60	10	11.89	PublicUtil	Manager3,Fin,Bud,&Actg
<b>Rivera,Manolo L</b>	<b>9/7/2016</b>	<b>68</b>	<b>36</b>	<b>255.88</b>	<b>City Light</b>	<b>Actg Tech II-BU</b>
<b>Smit,Thomas</b>	<b>8/13/2016</b>	<b>82</b>	<b>18</b>	<b>140.02</b>	<b>SDCI</b>	<b>Elecl Inspector,Sr(Expert)</b>
Sorensen,Marc A	9/7/2016	60	20	174.79	PublicUtil	Civil Engrng Spec,Sr
<b>Thomas,Don A</b>	<b>9/7/2016</b>	<b>67</b>	<b>28</b>	<b>252.62</b>	<b>City Light</b>	<b>Elctn-Con-Wkg CC</b>
Turrell,James F	8/3/2016	62	30	105.08	City Light	Lnwrkr-Asg Locator
Wong,Nelson Y	8/19/2016	64	18	341.06	PublicUtil	Drainage&Wstwtr Lead Wkr CII

For the month of September 2016: 68 new Members entered the System, 41 terminations, 32 Members retired in the System, 10 Members removed (\$10,412.82), 1 D/E Option, 2 F Option, and 2 over 60% benefit.

Bold entries (if any) above indicate 2x match.

**Motion:** Upon motion by Tim Burgess, seconded by Sherri Crawford, the Board of Administration accepted and approved the Administrative Consent Agenda. The motion passed unanimously (5-0).

### **Investment Committee Report, September 29, 2016**

Tony Smith reported on the September 29, 2016 Investment Committee meeting in which there was a proposal to restructure the Broad Fixed income allocation from a core plus to a core strategy. The proposal consists of two parts:

1. Revise SCERS's Investment Policy
2. Reallocate funds amongst SCERS's investment managers

Mr. Smith stated that at the June 2016 Board of Administration meeting, staff brought up the role of fixed income in the SCERS portfolio.

He stated that the Board agreed to disaggregate core and credit and move core from 18% to 16%; and credit from 5% to 7%. An analysis was conducted on SCERS's four current manager: PIMCO, Reams, Western Asset Management Company (WAMCO), and Pugh. Reams and WAMCO have more of their returns driven by credit which is more correlated with equities. SCERS's goal is to reduce the correlation to credit.

Mr. Smith stated that PIMCO and Pugh have strategies that are less volatile and more consistent. Pugh is currently running core, and PIMCO is currently running core plus for SCERS. Mr. Smith stated that the recommendation is to defund Reams and WAMCO and reallocate those funds to Pugh and PIMCO.

### **Investment Policy Revision**

**Motion:** Upon motion by Tim Burgess, seconded by Glen Lee, the Board of Administration accepted the Investment Committee's recommendation to adopt the revised Investment Policy to be effective January 1, 2017. The motion passed unanimously (5-0).

### **Core Fixed Income Manager Implementation**

**Motion:** Upon motion by Tim Burgess, seconded by Sherri Crawford, the Board of Administration, pursuant to the Investment Committee's recommendation in the revised Investment Policy to transition from a core plus to a core fixed income structure, accepted the Investment Committee's recommendation to defund the Western Asset Management and Reams core plus accounts and reallocate funds to Pugh Capital Management and PIMCO. The motion passed unanimously (5-0).

## **Executive Director Report**

Ken Nakatsu updated the Board on the Executive Director recruitment process being conducted by Alliance Resource Consulting (ARC).

He stated that on October 27, 2016, there will be a Special Board Meeting beginning at 1:00 p.m. which will be held mostly in Executive Session to review potential candidates. The consultants will be present at this meeting.

Currently, the City of Seattle is conducting a compensation study for the position and other senior positions. The consultants believe the salary is competitive but more information will be presented at the October 27<sup>th</sup> meeting.

Mr. Burgess asked how many candidates had applied. Mr. Nakatsu replied that as of October 3, 2016 there were 59 applicants.

### ***(9:13 a.m. – Jean Becker arrived)***

Claire Foster, SCERS's IT Manager, gave an update on the progress of the Pension Administration System.

Ms. Foster stated that the new SCERS II retirement plan is a coordinated development effort between the SCERS and EV5 development team. The plan is to begin integration tests with ADP, EV5, RIS II and User Acceptance testing at the end of October 2016. The plan will be ready to implement between December 1-31, 2016.

Ms. Foster said that staff still expect to have the ECM system ready for production in December 2016. The User Acceptance Testing is scheduled to start on October 31, 2016. Back file conversion has begun and 25% of the documents have been scanned. The plan is to complete the back file conversion by the end of November so that member file images can be loaded into V3 before SCERS goes live. The data conversion activities are on schedule and staff are preparing to load a data set for User Acceptance test the week of October 17, 2016.

Mr. Burgess asked how long it will take. Ms. Foster replied that scanning began on September 12, 2016 and the target date for completion is November 30, 2016. Mr. Davis stated that the electronic view images will go live sometime during the month of December 2016.

Mr. Harvey asked how long the paper documents had to be retained. Ms. Foster replied that the retention requirement is 90 days. Mr. Nakatsu stated that they are then sent to the warehouse.

Mr. Burgess asked if the project was being coordinated with City IT. Ms. Foster replied that it was and SCERS staff was continuing to meet with City IT staff and that security was a number one priority.

Staff and consultants are working on the heart of the PAS and are configuring the system for contributions processing and retirement benefits. They are about to start on retiree payroll.

Mr. Nakatsu stated that things with the project are continuing to go well. Ms. Foster said that SCERS has an external auditor and the findings are favorable. There was one open item in May 2016 that has been resolved. There are no current open findings.

Mr. Burgess told Ms. Foster and Mr. Davis that they and their teams should be very proud of the work they have done and that they are doing a great job.

Mr. Davis replied that is a lot of work for the staff with multiple sprints and the staff is stretched thin.

Mr. Nakatsu stated that the work plan was updated last month and there was nothing new to report.

Mr. Davis reported on the dashboard. He stated that the trend on the increasing retirement estimate backlog has plateaued and that staff hopes it will come down in the upcoming months.

Cultural climate survey results have been updated with near full participation from staff. Results of the survey are roughly in-line with the results from December 2014. As new question asked if people are enthusiastic coming to work. It is very gratifying that the score was 8.4 out of 10.

### **Executive Session – Potential Litigation**

The Board entered Executive Session at 9:40 a.m. to discuss potential litigation for approximately 10 minutes after which the board will enter public session and adjourn.

The Board entered public session at 9:48 a.m.

### **Adjourn Meeting**

The meeting was adjourned at 9:48 a.m.

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Susan Coskey, Board Secretary



**Seattle City Employees' Retirement System  
Board of Administration Special Meeting  
Seattle City Hall, Boards and Commissions Room, 600 Fourth Avenue, Seattle  
(206) 386-1293**

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**Minutes of Thursday, October 27, 2016**

**Board Members Present:** Tim Burgess (Chair), Lou Walter, Jean Becker, Robert Harvey, Jr., Sherri Crawford, Susan Coskey

**SCERS Staff Present:** Ken Nakatsu, Nina Melencio

**Others Present:** Carlton Seu (Seattle City Attorney's Office), Brent Meyer (SDHR), Cindy Krebs (Alliance Resource Consulting, LLC)

**Call to Order**

Tim Burgess, Chair, called the meeting to order at 1:15 p.m.

**Compensation Study Results**

Brent Meyer, Senior Personnel Analyst with the City's Classification/Compensation department gave an overview of the compensation study conducted by the Seattle Department of Human Resources (SDHR) in partnership with Compensation Connections, LLC. The study requested compensation and organization data from sixteen (16) organizations for the following positions:

- Executive Director
- Chief Investment Officer (CIO)
- Chief Finance/Operations Officer (CFOO)
- Deputy Chief Investment Officer
- Senior Investment Analyst
- Investment Analyst

Organizations included the Washington State Investment Board (WSIB), University of Washington Endowment Fund, Pennsylvania State Employees Retirement System, San Bernardino County ERA, City of Dallas, Baltimore County ERS, and other municipalities and publicly funded pensions.

Of the 16 organizations, 14 organizations replied to the request for information. Mr. Meyer stated that based on the information gathered, market data supported moving the CIO position to the existing Executive 4 (from its current Executive 3 range) salary range and that staff at SDHR have begun the process to do that. All other positions surveyed align with the market data.

**Executive Session**

The Board of Directors entered Executive Session at 1:15 p.m. for approximately one hour and forty-five minutes for the purpose of evaluating the qualifications of applicants for public employment.

Executive Session was closed and the Board of Administration meeting re-entered regular session at 2:35 p.m.

**Adjourn Meeting**

The meeting adjourned at 2:35 p.m.

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Susan Coskey, Board Secretary





**Seattle City Employees' Retirement System  
Board of Administration Meeting  
Seattle City Hall, Boards and Commissions Room  
(206) 386-1293**

**Minutes, Thursday, November 10, 2016**

**Board Members Present:** Tim Burgess (Chair), Lou Walter (arrived at 9:02 a.m.), Robert Harvey, Jr., Jean Becker, Glen Lee (arrived at 9:03 a.m.), Sherri Crawford, Susan Coskey (via conference call)

**SCERS Staff Present:** Ken Nakatsu, Jeff Davis, Tony Smith, Jill Johnson, Cecelia Chen, Nina Melencio

**Others Present:** Mike Monaco (Mondress Monaco Parr Lockwood PLLC), Carlton Seu (Seattle City Attorney's Office), George Emerson (FAS), Elliott Bronstein (OCR), James Warren

**Call to Order:**

Tim Burgess, Board Chair, called the meeting to order at 9:01 a.m.

*(9:02 a.m. – Lou Walter arrived)*

**Public Comment:**

There was no public comment.

**Administrative Consent Agenda:**

Provided in the Retirement Board packet were the minutes from the October 13, 2016 Retirement Board regular meeting.

Ratification of Retired Payroll, Office Payroll, Other Payments and Withdrawals

<b>Service</b>	\$13,188,174.39
<b>Beneficiary</b>	935,137.64
<b>Disability</b>	<u>73,486.64</u>
<b>Pension Payroll – PPE October 2016</b>	\$14,196,798.39
<b>Office Payroll – PPE October 4 and 18, 2016</b>	\$ 202,700.71
<b>Vouchers Processed –October 2016*</b>	
• Expert and Consultant Services	\$ 60,274.24
• Investment Management Fees	\$ 73,728.50
• Interdepartmental Charges	\$ 123,944.70
• Miscellaneous	\$ 17,951.00

*\*October 2016 financial transactions do not close until 11/10/2016. Above is what is has been processed to date.*

**Immediate Withdrawals of Contributions for the month of October 2016**

<b>MEMBER</b>	<b>Dept Name</b>	<b>Position</b>
Erkes, Noah J	PublicUtil	Economist
Guinasso, Stacy M	Finance	Fin Anlyst Supv
Macauley, Josiah S	Parks Dept	Tree trimmer
Noble, Kevin M	SCL	Line worker
Orvold, Corey A	FIRE	PR Spec Sr
Reed, Edmund R	Seattle Center	Stage Tech
Rivera, Michelle S	Police	Dispatcher I
Roca-Rickfelder, Belen	Personnel	Info Technol Prof B
Sharma, Shreya	Human Svcs	Human Svcs Prgm Supv, Sr
Vander Sluis, John W	SDOT	Transp Plnr, Assoc
Waverly Jr., Wilton T	PublicUtil	Util Acct. Rep 1
<b>Williams, Terri A</b>	<b>Beneficiary</b>	<b>Beneficiary</b>

**Withdrawals for a total of: \$ 224,942.65**

Bold entries (if any) above indicate refund payment made to beneficiary of a member dying while in active status

c. Ratification of Service Retirements

The following list represents the retirements that have been processed since the last Retirement Board meeting.

<b>Retiree</b>	<b>RetireDt</b>	<b>Age</b>	<b>Yrs</b>	<b>Days</b>	<b>DeptName</b>	<b>Position</b>
<b>Ambion, Eloida R.</b>	10/5/16	62	37	69.28	Seattle Public Utilities	Mgmt Svcs Anlyst, Sr
<b>Balcos, Evelyn Joyce</b>	10/5/16	68	43	71.76	Police	Parking Enf Ofcr
<b>Bath, Russell R.</b>	10/5/16	66	32	151.4	Construction & Inspections	Elecl Inspector, Sr(Expert)
<b>Burns, William D.</b>	10/5/16	62	38	283.28	Parks & Recreation	Pool Maint Wkr
<b>Cejudo, Jorge</b>	10/8/16	57	17	338.87	Vested	Cement Finisher, Sr
<b>Dinehart, Karen M.</b>	7/22/16	58	15	221.12	Seattle City Light	Envrnmtl Anlyst, Sr
Hammer, Peggy S.	10/14/16	56	15	279.04	Vested	Exec Asst, Sr
<b>Hightower, Judith</b>	10/5/16	67	25	80.01	Vested	Muni Judge
Hildebrandt, Joyce Marie	9/23/16	57	12	357.77	Vested	Civil Engrng Spec, Sr
<b>Langlois, Jerry R.</b>	10/4/16	61	27	211.48	Seattle Public Utilities	Constr&Maint Equip Op
<b>Macri, Janet I.</b>	9/10/16	58	13	111.54	Parks & Recreation	Admin Staff Asst
Marsten, Curtis L.	10/5/16	62	29	3.98	Transportation	Civil Engrng Spec, Assoc

McBroom, Joyce Ann	9/28/16	66	18	56.43	Police	Parking Enf Ofcr
<b>Miller, Norma J.</b>	10/1/16	62	14	65.04	Vested	Executive3
Morrison, Michael D.	10/4/16	57	23	91.94	Seattle City Light	Auto Engr, Sr
<b>Oiye, Alan Y.</b>	9/21/16	70	39	96.03	Construction & Inspections	Land Use Plnr IV
<b>Park, Nelson S.</b>	10/5/16	68	40	207.54	Seattle City Light	StratAdvsr1-BU *
<b>Peck, Robert Brian</b>	9/8/16	62	5	250.86	Vested	Manager2, Fin, Bud, & Actg
<b>Roberson, Carolyn M.</b>	9/9/16	63	7	304.16	Vested	Vested
<b>Saclo Jr, Bernardino C.</b>	10/4/16	64	27	94.57	Planning & Community Development	Elecl Inspector, Sr(Expert)
Stewart, Thomas Leighton	9/21/16	65	18	245.33	Seattle City Light	Plng&Dev Spec II
Thompson, Lester Purdell	9/27/16	64	15	308.53	Vested	Truck Drvr, Heavy
Waldron, Leslie Elaine	10/4/16	64	7	85.81	Transp	Admin Staff Anlyst
Watanabe, Anne J.	10/5/16	61	21	213.93	Hearing Examiner	Hearing Examiner, Dep

For the month of October 2016: 50 new Members entered the System, 44 terminations, 24 Members retired in the System, 7 Members removed (\$9,915.14), 3 D/E Option, 3 F Option, and 4 over 60% benefit.

**Bold/italized** entries (if any) above indicate 2x match.

**Motion:** Upon motion by Tim Burgess, seconded by Robert Harvey, Jr., the Board of Administration accepted and approved the Administrative Consent Agenda. The motion passed unanimously (5-0).

### **Member Services Report**

Jeff Davis gave the Member Services Report. He stated that the member services team finished a six-week customer services training. Their work is now focused on documenting policies and procedures in a shared knowledge base software application.

**(9:03 a.m. – Glen Lee arrived)**

The back-file conversion is on schedule and the scanning of the hard files will be completed in December. The member services team is engaged in quality assurance. They are also involved in the Pension Administration System implementation, writing articles for the shared knowledge base application, and engaged in testing of the PAS. It is a big effort and will continue for the next 18 months. Their manager, Cynthia Scheiderer, is doing a great job.

**(9:06 a.m. – Tim Burgess left; Robert Harvey, Jr. took over as Chair for the remainder of the meeting)**

### **Race & Social Justice Overview**

Elliott Bronstein is the Public Information Officer and Public Disclosure Officer for the City's Office of Civil Rights which includes the Office of Labor Standards.

Mr. Bronstein gave a history of the City's Race and Social Justice Initiative (RSJI) which started with former Mayor Greg Nickels. Mayor Nickels asked that all City employees go through at least one day of training on the Initiative. Mr. Nakatsu said that Ms. Coskey had requested Implicit Bias training for the Board but that training could not be condensed into an hour or two.

Mr. Bronstein stated that it is important for all City Boards and Commissions have at least a basic knowledge of the City's Race and Social Justice Initiative.

The vision for the Initiative is that racial disparities are eliminated and racial equity is achieved. It is easy to say, but difficult to achieve. The City framed the Initiative as a long-term community organizing effort from the inside.

Mr. Bronstein said that the mission is to first, put our own house in order. The initiative began 12 years ago, which was a different time in the United States. No one was talking about structural racism. It was quite a step to admit that the City's operation itself had institutional racism and that the goal was to change that. The City's subsequent actions to address institutional racism made us national leaders for doing so and promoting inclusion for all its residents.

Mr. Bronstein spoke of the difference between the words "equality" and "equity". He stated that the difference between the two words is important when talking of racial equity. Giving everyone the same thing can be inequitable.

Mr. Harvey said that a decision was made to focus on race when this country was founded.

Mr. Bronstein stated that one reason the City decided to begin an initiative focused on race was that poverty rates in the City clearly show disparity by race. The poverty rates vary greatly for different races and ethnicities, especially among children and seniors.

Mayor Nickels also noticed that the interests and needs of various communities varied greatly, as did their perceptions of government. These differences and resulting inequities were highlighted in many ways, including in such unsuspecting ways as how the City responded to street light outages (formerly largely handled on a complaint basis). A RSJI "Change Team" of City employees found that many communities were distrustful of government and hesitant to call to report problems or outages. This resulted in street light outages often being concentrated in communities of color because the problems were often unreported. In the streetlight instance, the Change Team found that if lights were systematically replaced in a geographical area based on the expected life of the bulbs, that lighting would not only be more equitably provided, it would be done much more cost effectively because crews would not be moving inefficiently from one reported outage to another.

Mr. Bronstein said that in the City, "we can walk and chew gum at the same time." Just because the City uses race as the lens, it does not mean we are not doing other work as well. We also have a gender equity project. We passed paid parental leave recently. We have a variety of LGBT projects happening at the same time including passing the transgender restroom law. When Seattle passes a law, other places look at it.

Mr. Bronstein stated by focusing on race, we are able to develop more specific targeted solutions. For example, when we work on gender or LGBT issues, we ensure that we examine race as part of those other issues. The City has a whole lot of things going on.

Even the various labor standards initiatives focused on basic class issues. When the City Council examine issues like minimum wage and work scheduling, these concerns often affect workers of color because they disproportionately hold lower paying jobs.

Ms. Coskey said that is also one reason the Partnership Workforce Equity Plan moved forward. It looks at institutions and comes up with strategies to address structural institutional barriers. In all the work that OCR and SDHR has done, the City starts with race. Whatever barriers exist, race compounds it. Women are paid less than men, but black women are paid even less. Race starts it and race compounds it.

Mr. Harvey commended the City for the work they are trying to do. He said at the same time, Seattle and Portland are the top two whitest cities in America and Seattle is one of the costliest cities to live in. Economics is trumping everything else. The population of the people you are trying to address is getting smaller and smaller.

***(9:47 am – Sherri Crawford left the meeting)***

Mr. Bronstein stated that their office is small. The real work of the initiative comes from each department to ensure that their different work units incorporate race and social justice into their work. Mr. Bronstein explained the Race and Equity toolkit and how it was used for the planning process for projects. He stated that the Mayor has mandated that each department document four uses of the toolkit annually.

Ms. Coskey said that the Mayor requires and very clearly sets expectations that we will engage. We should tell SCERS to do the same and the Executive Director and COO would be accountable to the Board.

### **Investment Committee Report – October 27, 2016**

Tony Smith reported on the implications of the presidential election on the financial markets. He stated that he participated in several conference calls with managers and has also consulted with NEPC. The first piece of advice was to stay the course. SCERS should continue to follow its strategic asset allocation and Investment Policy.

Mr. Smith stated there are comparisons of this event with Brexit. Brexit had a two-day negative impact on the market, and then had an immediate snap back. Immediately after the election in the United States, there was short term volatility. Equity futures dropped 5% overnight, but then the market opened flat, and then started to rally. Most investors and advisors are saying be cautious and do not be lulled into thinking that everything will be fine. It is not known whether and how the President-elect will take a stance on some issues, and there could be volatility.

There is concern that a trade war will be detrimental to the economy and the financial markets. On the positive side, greater infrastructure spending and tax reform will be stimulative. Interest rates started to go back up in anticipation of inflation and fiscal stimulus.

Mr. Smith also described the Investment Committee meeting in October which primarily consisted of the annual presentation by Adams Street Partners on our Private Equity investments. SCERS partnered with Adams Street Partners two years ago on a four-year investment plan to commit \$280 million through a fund-of-one structure, as well as oversee SCERS's legacy private equity portfolio. SCERS has \$200 million committed now.

Mr. Smith reported that the November Investment Committee meeting will be on November 17, 2016 and that NEPC will report on third quarter performance.

### **Executive Director Report**

Ken Nakatsu said there were no changes to the work plan.

Jeff Davis reported that the backlogs and turnaround times to the retirement estimates were going down. Staff on the member services team were doing their routine work as well as assisting with the implementation of the Pension Administration System (PAS).

With the implementation of the new retirement plan, SCERS II, there is a lot of testing to see if the payroll system can accommodate the new retirement plan. Technically, it is ready to go. SCERS was partnering with SDHR on communications with City units and the people who can opt in or haven't yet joined retirement.

Staff are also implementing the COLA increase in November for retirees.

**Adjourn Meeting**

**Motion:** Upon motion by Jean Becker, seconded by Lou Walter, the Board of Administration voted to adjourn the meeting at 10:27 a.m. The motion passed unanimously (5-0).

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Susan Coskey, Board Secretary



**Seattle City Employees' Retirement System  
Board of Administration Meeting  
Seattle City Hall, Boards and Commissions Room, 600 Fourth Avenue, Seattle  
(206) 386-1293**

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**Minutes, December 8, 2016 Board Meeting**

**Board Members Present:** Lou Walter, Jean Becker, Robert Harvey, Jr., Glen Lee, Sherri Crawford (arrived at 9:12 a.m.), Susan Coskey (via conference call at 9:06 a.m.)

**SCERS Staff Present:** Ken Nakatsu, Jason Malinowski, Tony Smith, Jill Johnson, Cecelia Chen, Nina Melencio

**Others Present:** Carlton Seu (Seattle City Attorney's Office), Gavin Parr (Monaco Parr Lockwood PLLC), Tim Allen (Director/CIO of Tacoma Employees' Retirement System), George Emerson (FAS), Tom Kirn (CBO)

**Call to Order:**

Lou Walter, Board Chair, called the meeting to order at 9:01 a.m.

**Public Comment:**

There was no public comment.

**Administrative Consent Agenda:**

Provided in the Retirement Board packet were the minutes from the November 10, 2016 Retirement Board regular meeting.

Ratification of Retired Payroll, Office Payroll, Other Payments and Withdrawals

<b>Service</b>	\$13,408,391.01
<b>Beneficiary</b>	984,730.64
<b>Disability</b>	<u>83,115.01</u>
<b>Pension Payroll – PPE November 2016</b>	<b>\$14,476,236.66</b>
<b>Office Payroll – PPE November 1, 15 and 29, 2016</b>	<b>\$ 317,138.01</b>
<b>Vouchers Processed –November 2016*</b>	
• Expert and Consultant Services	\$ 59,686.50
• Investment Management Fees	\$ 322,382.62
• Interdepartmental Charges	\$ 113,331.07
• Miscellaneous	\$ 52,629.29

**Immediate Withdrawals of Contributions for the month of November 2016:**

MEMBER	Department Name	Position
Bergeson,Michael E	Library	Librarian
Busbee,Jason W	Parks Dept	Rec Attendant
Campbell,Susan E	FAS	Cust Svc Rep
Duss,William J	Exec Dept	Admin Support Asst
MOWERY,KARA K	DPD	Admin Spec II-BU
Pursley,Mark E	EXEC DEPTS	StratAdvsr2,Exempt
<b>Rudolph,Scott M</b>	<b>Beneficiary</b>	<b>Beneficiary</b>
Simpkins,Dulcey L	Office of Sustainability & Env	StratAdvsr2,General Govt

**Withdrawals for a total of: \$ 253,476.39**

**Bold entries** (if any) above indicate refund payment made to beneficiary of a member dying while in active status

c. Ratification of Service Retirements

The following list represents the retirements that have been processed since the last Retirement Board meeting.

Retiree	RetireDt	Age	Yrs	Days	DeptName	Position
Booth,Robin A	11/2/2016	66	19	264.3	Seattle Police Depar	Parking Enf Ofcr
Carver,Gary Dale	10/15/2016	62	7	0.99	Seattle City Light	Elctn-Con
<b>Harris,Randy</b>	<b>10/27/2016</b>	<b>57</b>	<b>12</b>	<b>338.28</b>	<b>Vested Member</b>	<b>Drainage&amp;Wstwtr Coll Wkr</b>
<b>Harvey,Kenneth A</b>	<b>11/2/2016</b>	<b>65</b>	<b>31</b>	<b>231.56</b>	<b>Seattle Department o</b>	<b>Radio Dispatcher</b>
<b>Jewell,Steven A</b>	<b>10/18/2016</b>	<b>57</b>	<b>14</b>	<b>210.62</b>	<b>Human Resources</b>	<b>StratAdvsr3,General Govt</b>
MacKenzie,Ward R	10/15/2016	65	9	142.64	Seattle City Light	Exec Asst
Mackey,Michael Elof	9/27/2016	65	9	200.82	Seattle City Light	Meter Reader
<b>Marsten,Vicki T</b>	<b>11/2/2016</b>	<b>56</b>	<b>32</b>	<b>182.65</b>	<b>Seattle Public Utili</b>	<b>Civil Engr,Assoc</b>
<b>Martin,Ernesto</b>	<b>11/2/2016</b>	<b>68</b>	<b>34</b>	<b>245.1</b>	<b>Seattle Public Utili</b>	<b>Prjt Fund&amp;Agreemts Coord,Sr</b>
Mathews,Marcie	11/2/2016	53	28	297.07	Seattle Police Depar	Parking Enf Ofcr
Niehaus,Lisa K	10/29/2016	60	10	121.07	Vested Member	Gardener
Rollen,Donna Carol	11/2/2016	68	13	328.24	Seattle Public Utili	Admin Spec II
<b>Schilling,Elizabeth G</b>	<b>10/10/2016</b>	<b>63</b>	<b>10</b>	<b>10</b>	<b>VESTED</b>	
Smith,Mary E	11/1/2016	65	3	254.51	Vested Member	
<b>Spromberg,Linda C</b>	<b>11/2/2016</b>	<b>67</b>	<b>41</b>	<b>192.83</b>	<b>Seattle Police Depar</b>	<b>Poi Comms Anlyst</b>
<b>Surel,Almario Lopena</b>	<b>10/15/2016</b>	<b>65</b>	<b>34</b>	<b>208.82</b>	<b>Finance and Administ</b>	<b>Warehouser,Sr-BU</b>

For the month of November 2016: 111 new Members entered the System, 24 terminations, 16 Members retired in the System, 16 Members removed (\$27,642.93), 4 D/E Option, 3 F Option, and 5 over 60% benefit.

**Bold/italized** entries (if any) above indicate 2x match.

**Motion:** Upon motion by Robert Harvey, Jr., seconded by Glen Lee, the Board of Administration accepted and approved the Administrative Consent Agenda. The motion passed unanimously (4-0).

Ken introduced Tim Allen, Executive Director and Chief Investment Officer of Tacoma Employees' Retirement System who came to the SCERS meeting to see how SCERS ran its meeting compared to Tacoma. Ken mentioned we have worked closely with Tacoma on a number of issues.



## **ESG Quarterly Update:**

Jason Malinowski and Jill Johnson presented the ESG 4<sup>th</sup> quarter update.

Ms. Johnson stated that CalSTRS had launched a search for up to ten firms to provide ESG-focused and corporate governance services for public equities. CalSTRS is looking for a “pool” of qualified managers which might be used in the future.

North Carolina Department of the State Treasurer released a report that included a survey of institutional investors, finding that only 15% of the 61 US public pension surveyed were actively examining ESG issues.

Ms. Johnson participated in Ceres’ monthly conference calls. SCERS joined an additional INCR working group called Low Carbon, Clean Energy.

Mr. Malinowski was invited by San Bernardino County Employees’ Retirement Association to present on ESG at its Investment Forum in September 2016.

Ms. Johnson stated that she spoke on a panel titled “Practical Steps towards ESG Integration” at the Pacific Northwest Institutional Investors Forum in October 2016.

### ***(9:06 am – Susan Coskey called in to the meeting)***

Ms. Johnson, Lou Walter, and Glen Lee also attended the two-day Council of Institutional Investors Fall Conference in Chicago in October.

This quarter, SCERS joined with other members of the Council of Institutional Investors in a letter to the Senate Committee on Banking, Housing and Urban Affairs to express concern regarding proposed legislation that would increase regulation on proxy advisory firms.

SCERS also co-filed a resolution led by Walden Asset Management requesting BlackRock and JP Morgan to review and issue a report on their proxy voting policies and practices related to climate change.

Ms. Coskey asked if the fiduciary duty aspect of looking at sustainability may change with the new presidential administration.

### ***(9:12 am – Sherri Crawford arrived at the meeting)***

Mr. Malinowski responded that it does not change our fiduciary duties, but does affect the investment landscape. An example is renewable power infrastructure, which would be less attractive if government subsidies were to be removed in the future.

Mr. Malinowski said another example is the merits of fossil fuel divestment which has been predicated on the stranded asset thesis. That thesis would be more questionable if the US government does not pursue policies that combat climate change.

Returning to his presentation, Mr. Malinowski stated that there is a memorandum in the Board Packet regarding BlackRock. In September, we reviewed the proxy voting records of our passive public equity managers. At that time, Mr. Burgess asked us to come back to this meeting with a recommendation about what might be appropriate actions to take.

SCERS has \$339 million invested in the BlackRock MSCI World x-US Index Fund. SCERS hired BlackRock in 2012 through a RFP process. This action was taken before SCERS had an ESG policy. BlackRock is the

world's largest asset manager and therefore often owns 5% or more of many public companies, which gives them an important shareholder voice.

Early in 2016, through use of ISS's proxy vote monitoring reports, we noticed that BlackRock's proxy voting record was less supportive on ESG issues than the ISS Standard Policy or ISS Public Fund Policy, so staff started examining BlackRock more closely.

After the September meeting SCERS enlisted Mercer to examine BlackRock's handling of proxy voting and other investment stewardship activities. Mercer gave BlackRock high marks regarding their team, external collaboration and engagement efforts, but noted several areas for improvement, specifically on environment and social issues.

Mr. Malinowski stated that the staff recommendation is to put BlackRock on watch status as it relates to their handling of ESG issues. Mr. Malinowski summarized staff's concerns with BlackRock as their reticence to oppose management, limited focus on environmental and social issues, inconsistency between their proxy voting record with their policies and public pronouncements and limited transparency on investment stewardship activities.

Both Mercer and NEPC agree with staff's recommendation to put BlackRock on watch status.

**Motion:** Upon motion by Jean Becker, seconded by Robert Harvey, Jr., the Board of Administration placed BlackRock on watch status due to ESG concerns in its role as manager of the BlackRock MSCI World ex-US Fund. The motion passed unanimously (6-0).

### **Investment Committee Report – November 17, 2016**

Mr. Malinowski provided an update of the November 17, 2016 Investment Committee Meeting.

He stated that staff worked with Mike Monaco and Carlton Seu to draft a contract template to use with separate account managers that replaces the previous template. The main difference is that there is no contract expiry. It still maintains the ability to terminate a manager with 30 days' notice. This is best practice and industry norm.

Staff and counsel are currently negotiating modest, routine tweaks with each manager. All motions say "pending satisfactory legal review" to reflect this.

**Motion:** Upon motion by Glen Lee, seconded by Robert Harvey, Jr., the Board of Administration accepted the Investment Committee's recommendation to approve the Investment Management Services Agreement between SCERS and PIMCO, pending satisfactory legal review. The motion passed unanimously (5-0).

**Motion:** Upon motion by Jean Becker, seconded by Sherri Crawford, the Board of Administration accepted the Investment Committee's recommendation to approve the Investment Management Services Agreement between SCERS and Pugh Capital Management, pending satisfactory legal review. The motion passed unanimously (5-0).

**Motion:** Upon motion by Sherri Crawford, seconded by Jean Becker, the Board of Administration accepted the Investment Committee's recommendation to approve the Investment Management Services Agreement between SCERS and Rhumblin Advisers, pending satisfactory legal review. The motion passed unanimously (5-0).

**Motion:** Upon motion by Sherri Crawford, seconded by Robert Harvey, Jr., the Board of Administration accepted the Investment Committee's recommendation to approve the Investment Management Services Agreement between SCERS and Parametric Portfolio Associates, pending satisfactory legal review. The motion passed unanimously (5-0).

**Motion:** Upon motion by Jean Becker, seconded by Robert Harvey, Jr., the Board of Administration accepted the Investment Committee's recommendation to approve the Investment Management Services Agreement between SCERS and Russell Investments, pending satisfactory legal review. The motion passed unanimously (5-0).

Mr. Malinowski stated that there was a discussion on Real Assets during the Investment Committee meeting and the important role it plays in the SCERS portfolio. Representatives from JP Morgan came in to present on the real estate market.

***(9:41 – Susan Coskey rejoined the meeting by phone)***

### **Executive Director Report**

Ken Nakatsu stated that Executive Director interviews are scheduled for December 15 and 16, 2016.

Examination of potential Emerging Markets Debt managers has been extended in to next year for the Work Plan.

Retirement estimates are down to six weeks, as reflected on the Dashboard. There has been progress despite additional work due to the Pension Administration System (PAS).

The PAS is still proceeding exceptionally well. However, the QA consultant has moved us from light green to amber due to scheduling issues.

There were some obstacles with the data conversion which staff had to spend some time resolving. We are looking at the situation and seeking opportunities to bring in more resources. Overall, we are pleased with the project and it is well within the budget.

835,000 records were scanned in comparison to an estimate of 600,000 records from two independent consultants. Staff are in the midst of validation. The soft launch of ECM for the ViTech software is scheduled for December 19, 2016. The go live date is January 20, 2016 for all staff.

We extended the Clifton Larson Allen auditor contract for three years.

Mr. Nakatsu said we have also recently completed open enrollment for retiree medical plans, and he felt it was important for the Board to be aware of the challenges faced by many of our retirees. He said we have about 6,000 retirees about 2,000 of whom are on Medicare and have City sponsored Medicare Advantage Plans.

**(10:13 a.m. – Susan Coskey no longer on the phone)**

Mr. Nakatsu said retirees pay for their medical premiums. Retirees under age 65 pay the entire premium but because they are part of the City's experience pool, along with active employees, their premiums are less than if they went out on the market. Retirees on Medicare constitute their own cost pool and do not benefit from an implicit subsidy from the City, as the under 65 retirees. Mr. Nakatsu also pointed out that the City plans are very generous and, thus, relatively costly.

Mr. Lee stated that the City bears a \$50-100 million liability on its books for the under 65 retirees which is non-trivial.

Mr. Nakatsu commented that retirees are not allowed to drop the City's retiree medical coverage and then come back due to this substantial financial obligation. This makes sense for the under 65 retirees but Medicare eligible retirees are different.

Of the 2,000 retirees with Medicare Advantage plans, 1,200 rely on Group Health. This is not surprising because Group Health used to be a much less expensive plan, but that is no longer the case.

Open enrollment was in November. During that time, there was a tremendous amount of phone calls. Group Health premiums went up 41%. SDHR worked very hard to come up with a somewhat lower cost Group Health plan as an additional option but both were still very expensive. SCERS staff took 300 calls, almost entirely from Group Health retiree members. About 100 retirees changed or dropped the Group Health plan. Mr. Nakatsu stated that he is bringing this topic up because the cost of medical plans is a huge burden for our retirees. He suggested it would be a good idea to research with SDHR alternatives for meeting the needs of our retirees. Many callers were literally crying on the phone, asking what they should do.

Mr. Harvey said that it would seem that those calls should go to Human Resources rather than the Retirement Office. Mr. Harvey was concerned that if the Retirement Office gave improper advice it would have serious consequences for the individual retirees.

Mr. Nakatsu replied that they are having discussions on transferring that responsibility.

Mr. Harvey said that he is hearing that Mr. Nakatsu wants the Board to act.

Mr. Nakatsu replied that it would be appropriate for the Board to ask that this issue be reviewed. Because Human Resources does not field the calls they simply may not aware of the gravity of the situation.

Mr. Harvey asked Mr. Nakatsu to draft a memo so the Board can pass it on to the City.

Mr. Lee stated that there were two issues:

1. Governance: Who should control? Currently, it is retirement.
2. Figuring the right plan to put together. We now have an obligation to figure out a different plan on behalf of constituents.

Ms. Becker stated that one of the things that Mr. Nakatsu pointed out is the rates have gone up. The City's revised offer for Group Health members is still expensive. Ms. Becker said she is also supportive of having someone who understands this market, i.e., consulting service, to assist retirees make choices.

Mr. Malinowski reviewed the investment dashboard. He stated that NEPC reviewed the 3<sup>rd</sup> quarter performance report at the Investment Committee meeting in November. SCERS performed 10.8% for the past year as compared to 10.1% for the policy index.

## **Adjourn Meeting**

**Motion:** Upon motion by Sherri Crawford, seconded by Jean Becker, the Board of Administration voted to adjourn the meeting at 10:30 a.m. The motion passed unanimously (5-0).

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Susan Coskey, Secretary



**Seattle City Employees' Retirement System  
Board of Administration Special Meeting  
The Arctic Club, Board Room, 700 3<sup>rd</sup> Avenue, Seattle, WA 98104  
(206) 386-1293**

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**Minutes of Thursday, December 15, 2016**

**Board Members Present:** Tim Burgess (Chair), Lou Walter, Jean Becker, Robert Harvey, Jr., Sherri Crawford, Susan Coskey

**SCERS Staff Present:** Ken Nakatsu

**Others Present:** Cindy Krebs (Alliance Resource Consulting, LLC)

**Call to Order**

Tim Burgess, Chair, called the meeting to order at 8:35 a.m.

**Executive Session**

The Board of Directors entered Executive Session at 8:40 a.m. for approximately four hours and 30 minutes for the purpose of evaluating the qualifications of applicants for public employment.

Executive Session was closed and the Board of Administration meeting re-entered regular session at 1:55 p.m.

**Adjourn Meeting**

The meeting adjourned at 1:55 p.m.

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Susan Coskey, Board Secretary



**Seattle City Employees' Retirement System  
Board of Administration Special Meeting  
Dexter Horton Building, 15<sup>th</sup> Floor Conference Room, 710 2<sup>nd</sup> Avenue, Seattle  
(206) 386-1293**

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**Minutes of Friday, December 16, 2016**

**Board Members Present:** Tim Burgess (Chair), Lou Walter, Jean Becker, Robert Harvey, Jr., Sherri Crawford, Susan Coskey

**SCERS Staff Present:** Ken Nakatsu

**Others Present:** Cindy Krebs (Alliance Resource Consulting, LLC)

**Call to Order**

Tim Burgess, Chair, called the meeting to order at 8:30 a.m.

**Executive Session**

The Board of Directors entered Executive Session at 8:35 a.m. for approximately two hours and 30 minutes for the purpose of evaluating the qualifications of applicants for public employment.

Executive Session was closed and the Board of Administration meeting re-entered regular session at 10:50 a.m.

**Adjourn Meeting**

The meeting adjourned at 10:50 a.m.

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Susan Coskey, Board Secretary