



## MINUTES

**Board Members Present:** Councilmember Tim Burgess; Robert Harvey; David Stewart; Glen Lee; Lou Walter; Sherry Crawford; Jean Becker

**SCERS Staff Present:** Cecelia M. Carter; Tony Smith; Jeff Davis; Claire Foster; Beverly Yapp; Lisa Carns

**Others Present:** Mike Monaco, Song Mondress Law Firm; Jeff Slayton, Seattle City Attorney's Office; Neil Rue, PCA; Mike Moy, PCA; Nate Van Duzer, Council Staff; John McCoy, Legislative Central Staff; George Emerson, FAS; Patti Kieval, Local 17; Jessica Wang, FAS; Justin Natali, City Personnel; Steve Viney, Retiree.

Councilmember Burgess, Board Chair called the meeting to order at 9:03am.

**Public Comment:** No public comment.

### Administrative Consent Agenda

#### Minutes:

Provided in the Retirement Board packet was the minutes from the January 10, 2013 Retirement Board regular meeting.

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

Service	\$10,462,782.90
Beneficiary	\$918,601.53
Disability	\$76,173.65
<b>Pension Payroll – PPE January 31, 2013</b>	<b>\$11,457,558.08</b>

<b>Office Payroll – PPE January 15 and 29, 2013</b>	<b>\$96,419.73</b>
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<b>Vouchers Processed – January 31, 2013</b>	<b>\$364,727.09</b>
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- \*Expert and Consultant Services – \$56,179.30
- \*Investment Management Fees – \$162,525.52
- \*Interdepartmental Charges - \$94,412.57
- \*Miscellaneous - \$51,609.70

### Immediate Withdrawals of Contributions for the month of January 2013:

Member	Department Name	Position
Adie, David J	DPD	Struct Plans Engineer
Avery, Darrell L	HSD	Youth Emplmnt
Basilio, Romano S	Library	Delivery Driver
Coffin, Jennifer R	SPU	Util Acct Rep I
Dela Paz, Channa A	SPU	Civil Engr Spec
Halley, Verna D	Seattle Center	Admin Spec II
Jeffries, Nicole J	SPU	Acct Tech II
Kebreab, Debesai	Seattle Center	Rec Attend
Leiber, Philip R	City Light	Exec 3
Lindsay, Scott C	City Light	Warehouser, Sr
Martin, Stephanie A	Parks	Rec Attend
Merritt, Timothy J	Parks	Groundskeeper I
Park, Lance M	Seattle Center	Admin Spec II
See, Christina Marie	City Light	Volunteer
<b>Sugiyama, Kathryn A</b>	<b>FAS</b>	<b>Strat Adv 2</b>
Sullivan, Nora Michelle	City Light	Meter Reader

Member	Department Name	Position
Tassew, Tsega	Parks	Program Aide
Todd, Dawn W	City Council	Legislative Asst
Toms-Trend, Zimya A	HSD	Prgm Intake Rep
Williams, Pamela Renee	SDOT	Civil Engr
Winninghoff, Jessica Raine	Seattle Center	Laborer
Wolf, Susan E	City Light	Admin Staff Asst
Wright, Steven	Parks	Capital Proj Coord Sr

Bold entries above indicate refund payout made to beneficiary of a member dying while in active status.

**Withdrawals for a total of: \$691,818.41**

**Ratification of Service Retirements for the month of January**

Retiree	RetireDt	Years	Days	Age	DeptName	Position
Au,Nguyet T	12/29/2012	31	169	56	SPU	Mgmt Sys Anlyst Sr
Blake,J Paul	1/2/2013	6	219	62	SPU	Executive 2
<b>Bucasas,Gregory P</b>	<b>12/31/2012</b>	<b>35</b>	<b>140</b>	<b>63</b>	<b>Parks</b>	<b>Parks Maint CC</b>
Clemente,Romeo D	12/31/2012	31	158	54	Municipal Courts	Info Tech Prof C-BU
<b>Damron,Edwin J</b>	<b>12/19/2012</b>	<b>32</b>	<b>297</b>	<b>61</b>	<b>SPU</b>	<b>Accountant</b>
Denning,Carolyn G	12/29/2012	32	249	65	DoIT	Info Tech Prof B
Dimola,Donna J	12/29/2012	22	305	65	Police	Acct Tech III
Dubuque,Richard P	12/27/2012	20	233	71	City Light	Mgmt Sys Anlyst Sr
Effertz,Mary E	12/26/2012	13	12	58	Vested	Vested
Field,Alex	12/29/2012	15	36	69	Library	Events Services Manager
Francis,Roy	12/29/2012	16	171	68	SDOT	Manager 3
Gaukel,Kathleen A	1/1/2013	27	1	63	K.C. Health	Nurse Practitioner
Halbeck,David H	12/19/2012	7	218	63	DPD	Pressure Sys Inspector
Halvorsen,Jan F	12/31/2012	10	349	69	DPD	Elevator Inspect Sr
Hogan,Kathleen C	1/1/2013	28	168	61	Police	Personnel Spec Sr
Huynh,Minh L	12/19/2012	27	181	66	SDOT	Maint Laborer Sr Traffic
<b>Johnson,Joyce M</b>	<b>12/31/2012</b>	<b>44</b>	<b>102</b>	<b>65</b>	<b>SPU</b>	<b>Util Acct Rep I</b>
Kakida,Terry J	1/2/2013	27	269	58	SPU	Manager 3
Kelso,Dianne R	12/29/2012	28	6	66	DPD	Inspect Support Anlyst
Kennedy,Jacqueline O	12/15/2012	17	67	62	Parks	Delivery Wkr
Losteter,Thomas I	12/29/2012	19	6	66	City Light	Accountant Prin
Mar,Mary Ellen	12/12/2012	28	5	58	SPU	Util Acct Rep I
Mason,Steve C	12/12/2012	28	193	52	Vested	Vested
McElhose,Robert L	12/31/2012	27	340	61	DPD	Land Use Planner IV
McKenzie,Eileen L	12/19/2012	17	267	63	FAS	Admin Spec II-BU
Meyerholtz,Marita D	12/18/2012	19	80	62	Library	Librarian
Mickelson,Sharon T	1/1/2013	30	67	66	Personnel	Strat Advsr I
Mount,D'Anne	12/29/2012	27	265	64	DoIT	Strat Advsr 2
<b>Myers,Ruby D</b>	<b>12/29/2012</b>	<b>33</b>	<b>146</b>	<b>60</b>	<b>Municipal Courts</b>	<b>Admin Spec I</b>
Peel,Dena L	1/1/2013	19	175	59	Vested	Vested
Saisitthidej,Nokeo	1/1/2013	33	110	56	DoIT	Info Tech Prof A
<b>Skinner,M K</b>	<b>12/31/2012</b>	<b>33</b>	<b>219</b>	<b>66</b>	<b>Parks</b>	<b>Maint Laborer</b>

Retiree Name	RetireDt	Years	Days	Age	Dept Name	Position
<b>Snow,Stephen R</b>	<b>12/29/2012</b>	<b>33</b>	<b>70</b>	<b>67</b>	<b>Parks</b>	<b>Admin Staff Asst</b>
Sutherland,Mariah	12/21/2012	8	213	66	Library	Library Assoc I
<b>Taimi,Sitiveni</b>	<b>12/29/2012</b>	<b>35</b>	<b>163</b>	<b>61</b>	<b>Parks</b>	<b>Maint Laborer</b>
Tenna,Sebhat	1/2/2013	10	41	60	Neighbor- hoods	Strat Advsr I
<b>Triesch,Stephen J</b>	<b>12/31/2012</b>	<b>35</b>	<b>219</b>	<b>62</b>	<b>SPU</b>	<b>Fin Sys Anylst</b>
Tullio,Maria R	12/19/2012	26	3	58	Parks	Aquarium Biologist 3
Watson,William C	12/31/2012	25	133	65	DPD	Manager 2
Wilson,Kathi A	12/26/2012	30	1	51	City Light	Generation Supv

For the month of January 2013: 70 new Members entered the System, 36 terminations, 40 Members retired in the System, 18 Members removed (\$19,493.59), 2 Pop-Up from Option D, zero D/E Option, 4 Option F, 8 over 60% benefit.

Jean Becker arrived at 9:06am

**Motion:** Upon motion by Tim Burgess, seconded by Bob Harvey, the Retirement Board approved the below items contained in the Administrative Consent Agenda.

- Minutes of the January 10, 2013, Board Meeting
- Ratification of Retirement Payroll, Office Payroll, Other Payments and Withdrawals
- Ratification of Service Retirements for the month of January 2013

Lou Walter arrived at 9:08am

### **Investment Committee Report**

The Investment Committee met on January 31, 2013 at 12 noon at the Seattle City Employees' Retirement System Office, 720 Third Avenue, Suite 900 (Pacific Building). Committee members present: Lou Walter, Chair, Bob Harvey, Glen Lee; David Stewart. Other Board members present: Jean Becker; Sherry Crawford. Staff Present: Cecelia Carter, SCERS Executive Director; Tony Smith; Ben Kalman; Jeff Davis; Carlton Seu, Seattle City Attorney's Office; Lisa Carns; Beverly Yapp. Others present: Neil Rue, PCA; David Sancewich, PCA; Mike Moy, PCA; John McCoy, Legislative Central Staff; George Emerson, FAS; Zone Montoya, Personnel Department; Jessica Wang, FAS.

The Investment Committee discussed the following items at the meeting on January 31, 2013:

1. **SCERS Divestment Policy:** Mr. Tony Smith, SCERS staff reported over the last four-to-six weeks, SCERS received requests to develop responses to two unrelated socio-political issues: (i) fossil fuels' threat to the global environment and (ii) recent incidents of mass killings in the U.S. by individuals using assault weapons. PCA provided a detailed memo outlining the background on these particular issues, as well as a brief overview of fiduciary investment responsibility and geopolitical issues, various models that are currently being used by other plan sponsors to address potential ESG (Environmental, Social and Governance) issues, and suggested next steps for SCERS to develop a framework to assess and respond to such issues.

The outcome from the discussion resulted in the Investment Committee recommending the Board of Administration direct the Governance Committee to develop policy and procedures for studying and evaluating how to address advocacy concerns.

The Board noted the guiding principal for the Governance Committee in developing the policy and procedures for addressing is "Do no harm to the Investment Portfolio."

Ms. Carter announced that a collection of letters and emails were provided to the Board from active and retired SCERS members concerning the subject of divestments.

2. **Portfolio Protection Strategies:** Mr. Tony Smith, SCERS staff reported that Neil Rue with PCA provided a brief memo recapping the November 29, 2012 discussion with the Investment Committee that plan sponsors are increasingly researching ways to better manage downside risk within the context of the increasing frequency of global financial stress. These plan sponsors have done this through various means, and PCA believes both tail risk management strategies (Static and Facility) are worth investigating and potentially useful for the SCERS portfolio. The Investment Committee requested the review of this item be dedicated to regular standing Investment Committee.

3. Investment Accounting Summary Report for November and December 2012:

Mr. Tony Smith, SCERS staff reported as of November 30, 2012, the Total Portfolio had a market value of \$1.922 billion. As had been previously reported, SCERS funded Parametric at the beginning of the month. With the exception of Private Equity, the portfolio was within its target weights for all asset classes. Staff also reported that the fund received approximately \$2.9 million in distributions during the month. As of the report date, the mark-to-market funded ratio for the plan stood at 64.00%.

Mr. Tony Smith reported as of December 31, 2012, the Total Portfolio had a market value of \$1.952 billion. Staff reported that JPMorgan was funded for the Active Emerging Markets Equity Mandate. With the exception of Private Equity, the portfolio is within its target weights for all asset classes. Staff reported that the fund received approximately \$6.2million in distributions during the month. As of the report date, the mark-to-market funded ratio for the plan stood at 64.73%.

Mr. Walter commented that overall the Portfolio performed well for 2012. Tony Smith commented that since 2009 the Portfolio was up 125%. The performance of the portfolio is looking good, but the overall funding ratio is hindered by the plan demographics. The risk programs will be discussed at the Investment Committee meeting February 28, 2013.

Ms. Carter reminded the Board that the Strategic Planning Session is scheduled for February 22, 2013 from 1-4pm. The agenda will be distributed on February 15, 2013. The purpose of the meeting is to outline strategic goals. Justin Natali from the City Personnel Department will facilitate the meeting.

**Motion:** Upon motion by Tim Burgess, seconded by Lou Walter, the Retirement Board directed the Governance Committee to develop policy and procedures for studying and evaluating advocacy concerns.

**Motion:** Upon motion by Tim Burgess, seconded by David Stewart, the Retirement Board accepted the Investment Committee consent agenda.

**Executive Director Report:**

Investment Consulting Contract –One Year Extension Update: Ms. Carter, SCERS Executive Director reported PCA agreed to a one-year extension on the current consulting agreement. The extension will include the same scope of work at the same fee rate. A draft of the extension contract will be provided to the Board at the March 14<sup>th</sup> meeting and a motion for approval will be needed at that time.

2013 Board Election: Ms. Carter announced the Board Active Seat currently held by Ms. Jean Becker will be up for election in 2013. The nominations will open in April. The Board was provided a 2013 SCERS Trustee Election Timeline. Ms. Carter reminded the Board if there is no challenger the Incumbent will be re-appointed to the seat.

Dashboards Q4 2012: Ms. Carter and Mr. Smith presented the report to the Board. The Dashboard outlined the 4<sup>th</sup> Quarter 2012 summary of investment activity, data on membership changes for retirees and active members, retirement benefit summary, cash flow and performance measures. Mr. Smith highlighted the top ten manager holdings (equity and fixed income) for the 4<sup>th</sup> Quarter 2012.

Councilmember Burgess announced he was pleased overall with the 2012 performance. However improvement is needed specifically with the funding ratio. The goal for the funding ratio is 80% are higher.

Mr. Harvey questioned an evaluation report outlining the progress of the funding ratio. Ms. Carter indicated she would provide the Board with the information. Milliman will also provide a study and scenarios for the Board's review.

Mr. Walter and Ms. Becker thanked the Staff for their hard work on the Portfolio.

Ms. Carter highlighted there were 344 new retirees for 2012 and 171 retirements were terminated. The 4Q 2012 contributing members is 8,153. The average retirement benefit for the reporting period is \$1,957. Ms. Carter highlighted on the performance measures for 4Q 2012. There were 177 new estimate requests received; there were 83 pending from 3Q 2012; 212 were completed during the 4Q 2012. The total number of estimates completed in 2012 was 940. The Local 21C and the Intent to Retire programs created a significant increase in workload for the staff in Q4 2012.

### **New Business**

**SCERS Operations Projects:** Mr. Jeff Davis, SCERS staff reported he is temporarily working in the SCERS department to evaluate the following:

1. Staffing – (i) ensure staff is clear on roles and responsibilities; ensure the job duties and expectations are complete. The staff established a Performance Evaluation Policy in 2012 which was implemented for 2013. The Job Duties and Expectations 2013 are part of this process; (ii) review of staff levels and expertise. Mr. Davis stated this means staff is currently assessing the need of bringing on term-limited assignments to assist with the Investment Accounting and demands of year-end benefits; and (iii) evaluate the tools currently being used by staff and ensure the necessary tools are provided.
2. Technology – Mr. Davis reported SCERS is receiving assistance from the Finance and Administration IT department. The IT support is providing and assisting with the stability of SCERS IT functions. Mr. Davis is reviewing buybacks holistically which means the transaction, communications, review of the current code in order to identify how to create a more efficient approach to buybacks. Mr. Davis will bring the draft policy for buybacks to the Board for review and approval.
3. Cash Management - Mr. Davis reported he would evaluate the work that has been done thus far on cash management, create policies outlining the cash process, and review the resources. Mr. Davis will work with Tony Smith and Ben Kalman on this process.

Ms. Claire Foster provided the Board with a document mapping out the key IT Initiatives for SCERS. The tasks include the following:

1. Extend Platform Stability – Ms. Foster reported this means to have a plan in place to support R-Base on the current operating system through 2013. FAS -IT Department is assisting SCERS reducing the capacity issue.
2. Port RIS to Oracle Platform – Ms. Foster reported the analysis is underway to port the Retirement System Information System to an Oracle platform in the HRIS environment. The benefits of completing this task are: eliminates current platform restraints; improved security and auditing features; closer alignment with HRIS; operational improvements from reduced manual entry; better data management; and improved reporting capabilities.
3. Strategic System Replacement – Ms. Foster reported staff is working on reassessing the RFP scope and options for the IT Consulting Services RFP.

Mr. Walter expressed his concerns regarding the program flexibility and accommodating the needs of SCERS members. Mr. Walter asked if the Board would be included on the new system process. Staff reported a request for volunteers from the Board is part of the project plan. Mr. Walter volunteered.

**Governance Committee Report :** Ms. Becker reported the Governance committee met on February 13, 2012. The Committee provided the Board with draft charters for the following:

1. Board
2. Board Secretary
3. Board Treasurer
4. Executive Director
5. Board Chair

Ms. Becker requested the Board Administration review the charters and provide feedback. Ms. Becker also reported the Committee will continue to work on new charters for the Investment Committee, Investment Advisory Committee and Advocacy Issues.

Ms. Becker requested a special meeting or a designated time at a Board meeting to discuss the charters. The next Governance Committee meeting will be scheduled for early March. Once the date is determined, the meeting notification will be placed on SCERS website.

**SCERS Investment Portfolio Overview Presentation:** At the January 14, 2013 Board meeting the Board requested PCA provide (i) an analysis of the differences in performance of the SCERS' investment portfolio versus the Washington State Investment Board (WSIB) as well as the University of Washington Foundation's Endowment Funds and (ii) a comparison of SCERS's annual

performance returns for 1-, 3-, and 5-year periods ending December 31, 2012 versus a select group of public funds. Mr. Neil Rue with PCA reported that SCERS' investment performance was lower than the selected peer group due largely to difference in risk tolerance among the different plans. PCA was able to obtain information for all of the plans sponsors except for the University of Washington Foundation who declined the request to disclose data to Staff or PCA. Due to not receiving information from University of Washington Foundation PCA attribution analysis includes data from Colorado Fire and Police Pension Association (FPPA). The FPPA is a plan similar in size to SCERS.

SCERS Comparison with WSIB: Mr. Rue reported over the last ten years SCERS underperformed WSIB by (1.9%)/year. Over the last five years, this lag is (1.0%)/year. The lags are due to differences in policy and risk tolerance. Over the last five years, SCERS matched WSIB in terms of performance relative to policy. WSIB's aggregate group of managers have outperformed SCERS' group of managers. This is due largely to benchmark definitions, particularly with private market investments. Due to deviations from policy, SCERS has been able to add more value than WSIB over both the five and ten year time frames.

SCERS Comparison with FPPA: Mr. Rue reported over the last ten years SCERS outperformed FPPA by 0.9%/year. Over the last five years, this lag was (7.0%)/year. The ten year lag is due entirely to differences in policy and risk tolerance. The five year lag is due to the timing and funding and de-funding specific managers and mandates.

Mr. Rue reported the common themes when comparing SCERS with the above plans are (1) policy choices; and (2) SCERS had significant underweight to private equity.

Mr. Rue recommended a review of the underlining Policy.

Mr. Bob Harvey commented that from what PCA reported the reason SCERS' peers are out-performing is due to SCERS underweight in private equity. There was dialogue regarding private equity. Councilmember Burgess commented and questioned PCA about best policy practice in regards to taking risks as it relates to the duration of private equity. Councilmember Burgess also commented that he was hearing PCA state the risks are rewarded long term. Councilmember Burgess also noted that the risks associated with private equity could be wrong.

PCA commented the portfolio structure and Board policy decisions may need to be re-evaluated given the current economic paradigm. That shift could and would be achieved at the next Asset Liability Study which is scheduled for mid-2014. Several Board members asked whether SCERS could afford to wait that long. Ms. Carter indicated she would work with PCA to escalate the Asset Liability Study process into 2013.

PCA was asked to provide options regarding the policy and allocations and the consequences of each option.

Councilmember Burgess announced at 10:50am the Board would go into executive session to discuss a personnel matter until 11:30am.

At 11:30am a 20 minute extension was announced.

At 11:50am a 10 minute extension was announced.

The Board resumed to public session at 11:55 am.

**Adjournment:**

**Motion:** Upon motion of Tim Burgess, seconded by David Stewart the Retirement Board voted to adjourn the meeting at 11:55am.

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David L. Stewart, Secretary