



MINUTES

Board Members Present: Councilmember Tim Burgess, Board Chair; Robert Harvey; David Stewart; Glen Lee; Lou Walter; Sherri Crawford; Jean Becker

SCERS Staff Present: Cecelia M. Carter; Tony Smith; Ben Kalman; Jeff Davis; Claire Foster; Ken Nakatsu; Lisa Carns

Others Present: Mike Monaco, Song Mondress Law Firm; Carlton Seu, Seattle City Attorney's Office; Mike Moy, Pension Consulting Alliance; Tom Kirn, FAS; George Emerson, FAS; John McCoy, Central Legislative Staff; Steve Viney, Retiree; John Masterjohn, Retiree; Judith Flemings, ARSCE; Retiree; Jessica Wang, Budget Office; Nick Collier, Milliman; Thomas Rey, CliftonLarsonAllen; Kenneth Yaeger, Retiree; Robert Perez, Esquire and Matthew Maynard, Esquire, Foster Pepper Law Firm.

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

Public Comment: Ms. Judith Flemings requested to delay comment until the Board discussed agenda item 4.c. under the Executive Director Report. The Board agreed.

Councilmember Burgess announced there would be two executive sessions at the meeting to discuss an investment matter and a personnel matter.

Administrative Consent Agenda

Minutes:

Provided in the Retirement Board packet was the minutes from the May 9, 2013 Retirement Board regular meeting.

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

Service	\$10,661,560.02
Beneficiary	\$890,708.81
Disability	\$ 94,704.25
Pension Payroll – PPE May 31, 2013	\$11,646,973.08
 Office Payroll – PPE May 17 and 31, 2013	 \$124,860.55
 Vouchers Processed – May 31, 2013	 \$ 303,611.87
*Expert and Consultant Services – \$109,634.30	
*Investment Management Fees – \$55,915.92	
*Interdepartmental Charges - \$111,972.75	
*Miscellaneous - \$26,088.90	

Immediate Withdrawals of Contributions for the month of May 2013:

Member	Department Name	Position
Barnes, Douglas K	Library	Publ Svc Tech
Berg, Kenneth E	DPD	Planner
Brandolini, Anthony J	SDOT	Maint Laborer
Brenneise, Harvey R	Library	Librarian
Bruce, Todd A	DoIT	Info Tech Prof A
Caballero, Bonnie S	SPU	Util Acct Rep
Cates, Coral H	HSD	Reg Nurse Consult
Chung, Chloe Wing-Sze	Library	Lib Assoc II
Cooksey, Michael J	SPU	Plan Dev Spec Sr
Cooper, Carmen L	Parks	Rec Attend
Counts, Dwayne A	Seattle Center	Laborer
Cronk, Timothy J	Seattle Center	Laborer

Member Name	Department Name	Position
Gettmann, John M	Seattle Center	Laborer
Haws, Meshel L	Library	Lib Assoc I
Call, Jedediah G	City Light	Ofc Mtc Aide
Dennison, Thomas N	City Light	Carpenter
Evans Joe Tomassini	Dolt	Info Tech Prob B
Harris Cobbinah, Treva L	SDOT	Acct Tech III
Hoover, Chandra M	Parks	Lifeguard
Jou, How Coung	City Light	Info Tech Prof B
Kenney, Richard M	Seattle Center	Fac Tech Supv
Lawry, Mary R	Parks	Painter
Luzanaris, Danny	SPU	Elect Tech
Maeso, Loree D	Library	Lib Assoc I
Mark David Hinkley	DPD	Bldg Plans Exam. Supv
Mascarenas, David M	SPU	Wtr Pipe Wkr
Ortega, Diomaris	Personnel	Benefits Asst
Phok, Malissa M	SDOT	Civil Eng Spec
Taylor, David D	City Light	Strat Advr I
Timmons, Rocale D	Parks	Info Tech Support
Tran, Hien Thi	Library	Library Assoc
Tullio, Matthew L	Parks	Carpenter
Zhang, Ya P	City Light	Acct

Bold entries above indicate refund payout made to beneficiary of a member dying while in active status. **Withdrawals for a total of: \$458,949.87**

Ratification of Service Retirements for May:

Retiree	RetireDt	Age	Years	Days	DeptName	Position
Ablang, Nenita G	4/24/2013	57	14	100	DPD	Acct Tech III-BU
Baer, Daniel L	4/24/2013	52	30	164	Office of Housing	Manager 2
Burke, Martha L	5/8/2013	64	22	219	SPU	Strat Advr 2
Dao, Emilie N	4/25/2013	57	15	304	Vested	Vested
Dilley Jr, Forrest	5/4/2013	61	17	198	SPU	Info Tech Prof B -BU
Ellinger Jr, Daniel J	5/8/2013	69	22	210	SPU	Civil Eng Spec Sr
Ely, Ramon A	5/8/2013	62	20	2	City Light	Manager 3
Fors, Robert A	5/8/2013	67	11	13	Municipal Courts	Prob Counslr II
Gallow, Lynda A	5/8/2013	64	28	45	City Light	Admin Spec II-BU
Haigh, David M	5/2/2013	59	23	16	Office of Housing	Fin Anlyst Supv
Hardie, Berle E	5/4/2013	63	29	25	City Light	Labor Relations Coord
Hill, Cherrese E	5/7/2013	56	27	336	City Light	Cust Svc Rep
Mickelson, Kimberly L	5/8/2013	55	25	347	DoIT	Strat Advr I
Ngy, Teng	4/18/2013	63	1	182	Vested	Portability
Nichols, Melinda G	5/1/2013	63	23	78.99	Vested	Vested
Olyano, Blaine	5/3/2013	61	29	199	City Light	Carpenter CC
Razon, Evangeline D	5/8/2013	56	31	125	City Light	Sr Customer Serv Rep
Richardson, Rhodell	5/2/2013	63	24	216	City Light	Elect Engr Spec Sr
Rogge, Craig E	5/8/2013	59	37	252	City Light	Elect Svc Rep Sr

Retiree	RetireDt	Age	Years	Days	DeptName	Position
Sepulveda,James W	4/24/2013	66	14	196	Seattle Center	Head Usher
Valdez,Bienvenido D	5/4/2013	68	23	93	City Light	Civil Engr Asst III
Wentz,Wayne M	4/25/2013	57	3	145	Vested	Portability
Yapp,Beverly	5/4/2013	65	22	0	Retirement	Strat Advsr 2 TL
Younge,Karen	5/2/2013	57	27	263	SPU	Civil Engr Spec

For the month of May 2013: 88 new Members entered the System, 31 terminations, 24 members retired in the System, 13 Members removed (\$17,866.60), 1 C Option, 1 D/E Option, 2 Option F, 1 over 60% benefit, and 1 Pop-up from Option D to Straight.

Ms. Carter reported there was nothing out of the ordinary to highlight on the Ratification of Retirement Payroll, Office Payroll, Other Payments and Withdrawals, or the Service Retirements.

Motion: Upon motion by Tim Burgess, seconded by Lou Walter the Retirement Board of Administration approved the Administrative Consent Agenda.

- Minutes of the May 9, 2013, Board Meeting
- Ratification of Retirement Payroll, Office Payroll, Other Payments and Withdrawals
- Ratification of Service Retirements for the month of May 2013

The motion carried unanimously.

Investment Committee Report

The Investment Committee met on May 30, 2013 at 12 noon at the Seattle City Employees' Retirement System, 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 (Via Phone); Sherry Crawford.

Investment Advisory Committee present: Joseph Boateng, Alan Hess, Dwight McRae, Paul Maffeo, and John Comerford.

Staff Present: Cecelia Carter, SCERS Executive Director; Tony Smith; Ben Kalman; Jeff Davis; Ken Nakatsu; Lisa Carns; Carlton Seu, Seattle City Attorney's Office.

Others present: Neil Rue, David Sancewich, Mike Moy, Andrew Bratt, and Christy Fields with Pension Consulting Alliance; John McCoy, Legislative Central Staff; George Emerson and Tom Kirn, FAS; Jennifer Senta and Nick Collier, Milliman; Jessica Wang, Budget Office.

Mr. Tony Smith, SCERS staff gave a report on the May 30, 2013 Investment Committee meeting. A recap of the meeting is outlined below.

Performance Report 1Q 2013

Mr. Smith reported the SCERS Total Portfolio returned 4.82% for the quarter ending 03/31/2013, beating the policy benchmark by 39 basis points, primarily due to security selection in the U.S. Equities and Private Equity asset classes. During the latest 1-year and 3-year periods, the Total Portfolio outperformed the policy benchmark by 19 and 28 basis points, respectively. Despite trailing over longer time periods relative to the comparable peer universe, nearer-term performance, particularly the 1 and 3 year time periods, reflect an improving trend in the Total Portfolio's quartile ranking.

Investment Accounting Summary Report – April 2013

Mr. Smith reported as of April 30, 2013, the Total Portfolio had a market value of \$2.05 billion. The Total Portfolio asset classes were within acceptable ranges from their target weights, with the exception of Private Equity. During the month, SCERS received \$500 thousand in distributions from its Private Equity managers. As of the report date, the funded status of the plan stood at 66.84% on a mark-to-market basis.

Mr. Smith reminded the Board that Attucks is on the Watchlist and that staff are continuing to evaluate the manager. Attucks runs a manager of manager all cap program for SCERS using WMBE emerging managers. Staff will keep the Board updated and make recommendations at a future meeting.

Real Estate Restructuring

Mr. Smith reported that in follow-up to the selection of AEW Capital Management and Heitman Capital Management to diversify SCERS' core real estate exposure, PCA provided the Investment Committee with a memo outlining the plan to restructure SCERS' real estate portfolio. As part of the restructure PCA recommended redeeming Washington Capital JMT Real

Estate Equity Fund and American Core Realty Fund, and a portion of the non-core segment of the JP Morgan Combine Real Estate account. The purpose of the restructure is to bring JP Morgan's concentration from around 72% to approximately 37%.

Mr. Smith also reported that AEW Capital Management will be funded by June 30, 2013 and Heitman Capital Management would be funded no later than the fourth quarter of 2013.

Private Equity – HarbourVest Dover Street VIII, L.P.

Mr. Smith reported that Mike Moy and Andrew Bratt with PCA presented the Investment Committee with a potential investment opportunity in Dover Street VIII, L.P., a secondary fund offering sponsored by HarbourVest Partners, LLC. Mr. Brett Gordan, Managing Director presented to the Investment Committee a background of HarbourVest, their track record, and Dover Street VIII. The highlights from HarbourVest's presentation included a track record of 21.7% gross IRR, deep experience in secondary direct and structured transactions, and an opportunity to join an established private equity firm and one of the largest dedicated secondary managers in the market. Following Mr. Gordon's presentation, Mr. Moy and Mr. Bratt provided a brief background on the investment selection process that PCA conducted. The Investment Committee acknowledged that PCA conducted the evaluation, selection and due diligence process without input from SCERS Staff and approved the investment in Dover Street VIII.

Following the Investment Committee report there will be further discussion regarding the investment opportunity in Executive Session.

Overlay Facility Recommendation

Mr. Smith reported that PCA reviewed with the Committee the benefits and best-practices approach for utilizing an overlay provider. The three key benefits outlined were the ability to perform more fluid and cost-effective rebalancing, the equitization of frictional cash, and access to tactically adjust the portfolio in a more nimble fashion than currently available should market conditions ever warrant such a shift. It was highlighted that the utilization of an overlay provider has the potential to add several million dollars of additional value to the SCERS Portfolio annually. The Investment Committee recommended SCERS Staff and PCA begin a request-for-proposal process to retain an implementation services manager.

Councilmember Burgess announced the Board would go into Executive Session to discuss an Investment matter at 9:12am and will reconvene at 9:30am. The public would be notified if executive session is extended.

Mr. Bob Harvey arrived during Executive Session.

At 9:30am Ms. Cecelia Carter and Mr. David Stewart announced executive session was extended to 9:50am.

The Board resumed to public session at 9:50am.

Motion: Upon motion by Tim Burgess, seconded by Lou Walter, the Retirement Board of Administration approved the redemption of Washington Capital Real Estate Equity Fund and American Core Realty Fund as recommended by the Investment Committee.
The motion carried unanimously.

Motion: Upon motion by Lou Walter, seconded by Glen Lee, the Retirement Board of Administration approved the commitment of \$7.5 million dollars to the HarbourVest Dover Street Fund VIII, L.P. as recommended by the Investment Committee and SCERS Investment Consultant and is subject to legal review.
The motion carried unanimously.

Motion: Upon motion by Lou Walter, seconded by Glen Lee, the Retirement Board of Administration accepted the Investment Consent Agenda.
The motion carried unanimously.

Ms. Becker noted for the record concerns regarding the presentation and compressed timeframe for making the Dover Street Private Equity decision. Ms. Becker requested the Investment Committee review and update the Board's Investment Policy and Procedures document to ensure going forward the process for approving Private Equity investments is defined clearly, allows time for the Board to exercise its due diligence and that both PCA and SCERS Staff arrive at a joint recommendation on Private Equity decisions.

Executive Director Report:

2013 Trustee Election

Ms. Carter reported the 2013 Trustee Election for the Regular Active Seat for July 1, 2013 – June 30, 2016 was certified by Votenet Solutions. Ms. Jean Becker won the election. 16% of the eligible participants voted.

Motion: Upon motion of Tim Burgess, seconded by Glen Lee, the Retirement Board of Administration ratified the certification of election results as provided by Votenet Solutions for the 2013 Board of Administration election for an active member seat (3 year term July 1, 2013 - June 30, 2016). Ms. Jean Becker abstained from vote. The motion carried.

Milliman Contract

Ms. Carter requested Board approval to amend the Milliman contract to include an additional experience study. The Experience Study would be presented spring of 2014 for the 2015-2016 biennial budget process.

Motion: Upon motion by Lou Walter, seconded by Glen Lee, the Retirement Board of Administration approved an amendment to Milliman's 2011-2014 Actuarial Services Contract to add an additional Experience Study covering 2010-2013. The motion carried unanimously.

ARSCE Letter of Request – Discussion Only

Ms. Carter reported ARSCE submitted a letter of request for the Board to review the pop-up provision with retirement options D and E. Ms. Carter outlined the pop-up applies to retirees pre- 1997 who chose Retirement Option D or E. Mr. John Masterjohn (President elect) with ARSCE read a statement to the Board on behalf of Merle Overland, President of ARSCE expressing the concern of the pop-up provision, and questioned the rationale for excluding pre-1997 retirees.

Ms. Carter recommended the Board request analysis of the provision from SCERS staff, SCERS actuary and legal to determine the impacts and costs associated with changing the provision. The results of the analysis will be presented to the Board at the August Board meeting.

Declaration of Credited Interest for 2014 – Discussion Only

Ms. Carter reported that after review of peer systems. SCERS Staff recommends the credited interest be set at 2.91% for 2014. Tacoma Retirement System is remaining at 4.3% and Spokane is seeking to lower theirs to 2.5%.

The Board will vote on credited interest for 2014 at the July 11th Board meeting.

SCERS Operations Update

Mr. Jeff Davis, SCERS Staff provided the Board with an update on SCERS' Operations projects:

SCERS 2014 Budget

Mr. Davis reported the Board was provided a Budget Summary overview document outlining SCERS 2014 Budget. The highlights presented are as follows:

- Budget Summary – 2012 under spent budget authority by \$1.9M, with \$1.3M in budget for investment managers.
- 2013 – Personnel Services - increases reflect large increases for healthcare (13%) and retirement (21% budget, 17% rate change).
- 2013 Other Professional Services – Reflects \$260k one-time IT consulting add
- 2013 Central Cost Allocations - \$375k (48%) for increases in cost allocations.
- 2013 Office Rent & Other – Reflects \$120k rent add.
- 2014 – Reflects 2014 rates for health care and retirement, one-time IT consultant budget ending, and standard inflation for all else.
- Central Cost Allocations – Adjustment was made late in the budget process last year that double-budgets for some central costs.
- Proposed a BIP to add two term-limited IT Analyst position. These positions are needed to both maintain current operations capabilities and to work on improvements to the architecture and functionality of the system in advance (and in support) of system replacement. One of these positions would address work currently performed by a consultant. The second position will utilize existing budget authority from a prior term-limited position.

The Board requested a more detailed report. Mr. Davis responded they would receive a more detailed budget report.

Mr. Lee expressed concerns regarding the recruiting of term-limited positions versus permanent. Councilmember Burgess recommended the budget process proceed as submitted and if revisions are needed concerning the positions that could be reviewed later in the process.

Staffing – Tools

Mr. Davis reported that SCERS Senior Accountant is conducting a capacity review of her staff and the functions they perform. The outcome of the review has identified some areas where manual data entry can be eliminated resulting in increased capacity and less opportunity for errors.

Buybacks

Mr. Davis reported a buyback calculation template has been created for temporary time.

Cash Management

Mr. Davis reported he will present to the Board at the July 11th meeting a proforma view of revenues and expenses. The goal is to use this as a tool to not only identify cash needs for the month but for the next few years. Further refinement of the model will focus on just-in-time cash management.

Communications Audit

Mr. Davis reported the consultant has been interviewing staff and stakeholders and reviewing current communications. The consultant is currently developing a survey for members. Phase one of the communication audit will be presented to the Board in August /September.

Technology – New System RFP

Mr. Davis reported there is a signed contract with Linea Solutions. The goal is to have Linnea report to the Board at the end of Phase Two of the project in September / October with an option analysis. Phase three and four of the project is contingent on the option selected.

SCERS IT Updates

Ms. Claire Foster, SCERS Staff provided the Board with an update on IT projects.

Port Retirement Information System to Oracle

Ms. Foster reported the project is on schedule to “go live” on the new system at the end of July. The Windows 7 migration dates for Retirement are September 3 and 5, 2013.

IT Consulting Contract for PAS System Replacement

Ms. Foster reported that Linea Solutions will be onsite the week of June 17, 2013 to develop the project charter and work plan for the engagement. The consultant will also be present at the July 13, 2013 Board meeting.

Market Survey

Ms. Foster reported Crystal Roncek, Deferred Compensation Coordinator provided SCERS with assistance conducting the survey. The survey activities are now complete. A report of the survey will be presented at the July 13, 2013 Board meeting.

New Business

2012 Audit of Financial Statements Report

Mr. Thomas Rey with CliftonLarsonAllen presented the 2012 Audit of Financial Statements to the Board. The Board was provided with the Audit of Financials Report and a Management Letter. Mr. Rey stated the audit was successful. There were no significant weaknesses or concerns to report. The report will include some best practice recommendations concerning the custodian bank and general ledger entries.

Motion: Upon motion of Tim Burgess, seconded by Lou Walter, the Board accepted the 2012 Year-End Audited Financial Statements as presented by SCERS Staff and CliftonLarsonAllen,LLP. The motion carried unanimously.

Milliman Actuarial Valuation Report for January 1, 2013

Mr. Nick Collier with Milliman presented the Board with the Valuation Report for January 1, 2013. Mr. Collier reported there were no surprises to report on. The highlight of the presentation included:

- Funding Ratio decreased from 68.3%(2012) to 63.5% (2013)
- Average annual salary of active members in 2013 is \$68,449. In 2012 the average salary was \$66,476
- Average monthly benefit in 2013 is \$2,002. In 2012 the average monthly benefit was \$1,922
- The actuarial value of assets returned 13.3% in 2012
- \$31 million gain is being deferred in the 2013 Actuarial Value of Assets. The 2008 loss is now fully recognized on a five year smoothed basis
- Market Value is \$1.95 billion as of January 1, 2013 which is up from \$1.75 billion at January 1, 2012
- The amortization period remains at 30 years
- Membership did not grow as anticipated

Motion: Upon motion of Tim Burgess, seconded by Lou Walter, the Board accepted the January 1, 2013 Actuarial Valuation Report as presented by Milliman. The motion carried unanimously.

Councilmember Burgess announced at 10:45 am the Board would go into executive session to discuss a personnel matter until 11:30am. The public would be notified if executive session is extended.

Public session resumed at 11:26am.

There was no action taken in Executive Session.

Adjournment

Motion: Upon motion by Lou Walter, seconded by Bob Harvey, the Retirement Board voted to adjourn the meeting at 11:26am.

David L. Stewart, Secretary