



## MINUTES

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

**SCERS Staff Present:** Ken Nakatsu; Tony Smith; Ben Kalman; Jeff Davis; Claire Foster; Lisa Carns

**Others Present:** Mike Monaco, Song Mondress Law Firm; Carlton Seu, Seattle City Attorney's Office; Nate Van Duzer, Legislative Department; Tom Kirn, FAS; George Emerson, FAS; John McCoy, Central Legislative Staff; Steve Viney, Retiree; John Masterjohn, ARSCE; Barbara Graham, ARSCE; Al Riu, ARSCE; Judith Flemings, ARSCE; Lisa Jacobs, PTE17; Nick Collier, Milliman; Jennifer Senta, Milliman, Akio Tagawa, Linea Solutions.

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

**Public Comment:** Mr. Masterjohn, President of ARSCE acknowledged Cecelia Carter's service as the Executive Director of the Seattle City Employees' Retirement System and welcomed Ken Nakatsu as the Interim Executive Director for SCERS. Mr. Masterjohn further requested the Board to begin an immediate nationwide search for a permanent Executive Director.

### Administrative Consent Agenda

#### Minutes:

Provided in the Retirement Board packet was the minutes from the June 13, 2013 Retirement Board regular meeting.

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

<b>Service</b>	\$10,727,003.61
<b>Beneficiary</b>	\$ 894,885.85
<b>Disability</b>	<u>\$ 76,215.28</u>
<b>Pension Payroll – PPE June 30, 2013</b>	<b>\$11,698,104.74</b>
<b>Office Payroll – PPE June 4 and 18, 2013</b>	<b>\$130,625.90</b>
<b>Vouchers Processed – June 30, 2013</b>	<b>\$428,175.43</b>
*Expert and Consultant Services – \$222,277.00	
*Investment Management Fees – \$85,839.75	
*Interdepartmental Charges - \$22,281.93	
*Miscellaneous - \$97,776.75	

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

Member Name	Department Name	Position
Brunk, Arlene M	Parks	Laborer
Bynum, Jeffery W	City Light	HVAC Tech
Dues, David R	SPU	Mgmt Sys Anlyst
Ezelle, Sherese D	HSD	Social Svcs Aide
<b>Holliday, Iris (ACTIVE DEATH)</b>	<b>HSD</b>	<b>Admin Spec I</b>
Kelly, Carlotta D	DoIT	Info Tech Prof C
Lassiter, Mary C	Parks	Lifeguard
Namura, David M	City Council	Legist Asst
Nash, Thomas A	City Light	Info Tech Prof A
<b>Plell, Steven M (ACTIVE DEATH)</b>	<b>City Light</b>	<b>Lineworker</b>
Riggins, Jimmy F	Seattle Center	Laborer
Schlamm, Karl A	Seattle Center	Parking Attend
Witham, Justin L	Parks	Laborer

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

**Ratification of Service Retirements for June:**

Retiree	RetireDt	Age	Years	Days	DeptName	Position
Bachmann,Rosemary	5/14/2013	63	27	33	SDOT	Signal Electn Crew Chief
Ball,Kevin D	6/5/2013	63	7	257	Human Services	Human Svcs Prgm Supv Sr
Barton,Carolyn	6/5/2013	60	20	114	Fire	Admin Staff Asst
Chavez,Sheila G	6/5/2013	66	26	7	DPD	Accountant Sr
Colburn,Gary W	6/5/2013	54	28	362	City Light	Elect Pwr Sys Engr Prin
Crook,Brent L	5/14/2013	62	9	48	Vested	Vested
Cruz,Arlin L	6/5/2013	60	28	6	SDOT	Signal Electn V
Cunningham,Rosemary	5/11/2013	60	22	183	Human Services	Strat Advr 2
Dalton,Gloria	5/18/2013	57	19	60	Vested	Vested
Darboe,Shakur	6/5/2013	63	28	120	City Light	Admin Spec II
Dietemann,Allan J	6/5/2013	64	25	217	SPU	Strat Advr I
Ducey,Colleen M	6/5/2013	65	20	332	Parks	Admin Spec III
Erickson,Trisha A	6/5/2013	54	21	132	SPU	Manager 2
Ernsdorff,James M	6/1/2013	65	12	328	Vested	Vested
Glover,LaVerne	6/5/2013	63	30	83	City Light	Actg Tech II
Jacky,Lee D	6/5/2013	60	29	359	Parks	Civil Engr Spec Sr
Jones,David	6/5/2013	60	28	50	SDOT	Sr Asphalt Raker
Kegley,Melinda S	6/5/2013	61	18	37	Police	Police Comm Dispatch I
Kitchin,Glen J	5/14/2013	65	7	355	Vested	Vested
<b>Krouse,Roberta L</b>	<b>6/5/2013</b>	<b>69</b>	<b>32</b>	<b>225</b>	<b>Police</b>	<b>Admin Spec I -BU</b>
Leifer,Benjamin H	6/1/2013	60	20	11	Vested	Vested
Lundquist,Kari L	5/23/2013	52	28	54	City Light	Elctn Con
<b>McCoy,Patrick D</b>	<b>6/4/2013</b>	<b>75</b>	<b>36</b>	<b>127</b>	<b>SPU</b>	<b>Wtr Lab Tech</b>
McDonald,Sean J	6/5/2013	63	31	102	SPU	Strat Advr 3
Michael,Rod	6/4/2013	57	6	342	Human Services	Counslr
Papiez,Janice S	6/5/2013	65	0	182	Vested	Vested
Puloka,Seini F	6/5/2013	55	31	104	Seattle Center	Personnel Spec Sr
Rowland,Wayne C	5/11/2013	64	0	305	Vested	Vested
Schroeder,Carole M	6/5/2013	59	27	7	SPU	Civil Engr Spec Asst III
Simonson,Gene M	5/9/2013	66	8	284	Vested	Vested
Spencer,Martha J	6/5/2013	65	18	215	SPU	Civil Engr Suprv
Sun,Tzeyue	6/5/2013	60	30	154	FAS	Info Tech Prof B
Sweeney,Kathleen S	6/5/2013	59	23	323	SDOT	Maint Laborer Sr -Traffic
Tokiyeda,Olga	6/5/2013	65	22	209	FAS	Admin Spec II
Yamaguchi,Dennis T	6/5/2013	69	34	250	Fire	Fire Equip Tech

For the month of June 2013: 87 new Members entered the System, 18 terminations, 35 Members retired in the System, 11 Members removed (\$21,297.99), 1 D/E Option, 3 Option F reductions, 2 over 60% benefit.

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

- Minutes of the June 13, 2013, Board Meeting
- Ratification of Retirement Payroll, Office Payroll, Other Payments and Withdrawals
- Ratification of Service Retirements for the month of June 2013

The motion carried unanimously.

### **Investment Committee Report**

The Investment Committee met on June 27, 2013 at 12 noon at the Seattle City Employees' Retirement System, 720 Third Avenue, Suite 900 (Pacific Building).

Committee members present: Lou Walter, Chair; David Stewart.

Committee members absent: Bob Harvey; Glen Lee

Other Board members present: Jean Becker; Sherri Crawford

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

Others present: Neil Rue, David Sancewich, Mike Moy, Andrew Bratt, and Austin Carmichael 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 reported on the June 27, 2013 Investment Committee meeting. A recap of the meeting is outlined below.

### **Seattle City Employees' Retirement System Private Equity Performance Report for 4Q 2012**

Mr. Smith reported as of the report date, SCERS' Private Equity Portfolio had \$117.2 million in commitments across nine partnerships and five direct investments (four active and one inactive). The SCERS Private Equity Portfolio had a reported value of \$53.9 million. The reported value represented an approximate allocation of 2.7% of the Total Plan assets as of the report date, below SCERS' target allocation to private equity of 6%. It was noted that SCERS approved a \$7.5 million dollar commitment to Dover VIII, a HarbourVest secondary fund, which closed in June 2013. The 2013 Investment Plan targeted \$25-\$30 million of commitments, and PCA plans to bring subsequent investments to the Investment Committee for consideration as opportunities arise.

### **SCERS Real Estate Performance Report for 4Q 2013**

Mr. Smith reported during the fourth quarter, the real estate portfolio increased in assets by approximately 2.1%. The increase was due to retained income and unrealized appreciation from the JP Morgan Tactical Allocation program and JP Morgan Strategic Property Fund. As of the report date, SCERS' Core Portfolio returned 2.72% for the 4<sup>th</sup> quarter, outperforming the benchmark, the NFI-ODCE, which returned 2.35.

As of the report date, SCERS had five separate real estate managers; JP Morgan is currently the largest manager in the portfolio with 71.2% of assets. With the selection of AEW and Heitman as two new core real estate managers, JP Morgan's concentration will gradually be reduced towards the 25% real estate portfolio manager concentration target.

### **Actuary Experience Study – PCA Input**

Mr. Smith reported PCA gave a recap of the key findings from the February 20, 2013 Capital Markets Assumptions memo. Applying PCA's 2013 Capital Markets Assumptions to the SCERS policy portfolio, PCA estimates that SCERS policy expected long-term compound return to be close to 6.8% as compared to SCERS' assumed Investment Return of 7.75%. The lower return was based on PCA's updated capital markets assumptions over the next 10-year time period. Mr. Nick Collier from Milliman joined the conversation and noted that their estimate was between approximately 6.8% and 7.75% for SCERS' expected rate of return. Mr. Collier also noted that SCERS' next Investigation of Experience is slated for late 2013, at which time Milliman will present a more detailed analysis of the actuarial assumptions and any potential recommendations to SCERS.

### **Real Return Class Review**

Mr. Smith reported that PCA presented a review of SCERS' real return asset class. The report included the rationale for, and proposed recommendations to the current program. The key features for including a real return asset class are equity risk diversification and inflation hedging. PCA reported that a well-designed program should produce relatively stable returns and principal protection regardless of the market environment. PCA recommends that SCERS look to re-allocate dollars within the portfolio to be in line with the interim targets prescribed in the Real Return Guidelines, in addition to restructuring its hedge fund exposure to incorporate other desirable market exposures and a more desirable risk/return profile.

### **Investment Accounting Summary Report for May 2013**

As of May 31, 2013, the Total Portfolio had a market value of \$2.05 billion. With the exception of Private Equity, the Total Portfolio asset classes were within acceptable ranges from their target weights. As noted during PCA's review of SCERS' Private Equity Portfolio, SCERS' recently made a commitment to Dover Street VIII, a HarbourVest secondary, in efforts to move the program toward its long-term target. Staff also noted that within the U.S. Equity asset class, Attucks is being closely monitored with respect to performance in accordance with the process outlined in the Statement of Investment Policies and Procedures. During the month, SCERS received approximately \$1.57 million in distributions from its private equity managers and just over \$200 thousand from its private real estate managers. As of the report date, the funded status of the plan stood at 66.57% on a mark-to-market basis.

**Motion:** Upon motion by Tim Burgess, seconded by Lou Walter, the Retirement Board of Administration accepted the 4Q 2102 Private Equity Performance Report.  
The motion carried unanimously.

**Motion:** Upon motion by Tim Burgess, seconded by Lou Walter, the Retirement Board of Administration accepted the 4Q 2012 Real Estate Performance Report.  
The motion carried unanimously.

**Motion:** Upon motion by Tim Burgess, seconded by Lou Walter, the Retirement Board of Administration approved the Investment Consent Agenda.  
The motion carried unanimously.

Mr. Nakatsu requested the Board go into executive session to discuss a contract and personnel matter.

Councilmember Burgess announced the board would go into executive session at 9:20am and will reconvene at 9:35am.

The Board resumed to public session at 9:35am.

There was no action taken in Executive Session.

### **Executive Director Report:**

#### **Declaration of Credit Interest for 2014**

Mr. Nakatsu reported that at the June 13, 2013 Board meeting SCERS Executive Management staff recommended the 2014 declaration of credit interest be set at 2.91%. Mr. Nakatsu requested the Board make a motion to set the 2014 credit interest rate. Mr. Nakatsu further gave an explanation that the credit interest annual review was necessary due to the implementation of the policy enacted by the SCERS Board of Administration in October 2011.

**Motion:** Upon motion of Tim Burgess, seconded by Bob Harvey, the Retirement Board of Administration set the 2014 credit interest on all employee contributions received into the pension trust after December 31, 2011 at 2.91%.  
The Motion carried with 6 yes votes. Lou Walter voted no.

### **Introduction of Draft Work Plan**

Mr. Nakatsu reviewed the draft work plan that was provided to the Board. Mr. Nakatsu stated the work plan captured the ongoing critical items the Board has outlined for SCERS staff.

The work plan items that Mr. Nakatsu highlighted are:

1. Asset Allocation Study
2. Asset Overlay Service
3. Investment Policy and Procedures revisions/updates
4. Investment Advisory Committee. Mr. Nakatsu further recommended the SCERS Investment Advisory Committee standing meeting scheduled for August be canceled due to the discussions of reconstituting the committee
5. Management Contracts
6. Enhance SCERS Customer Service
7. Experience Study - scheduled for May 2014 completion. Actuary Study scheduled for July 2014.
8. City Audit and CliftonLarsonAllen audit. Mr. Nakatsu recommended that SCERS Management proceed with the recommendations.
9. Annual Report for 2012

10. Investment Consultant Services RFP. Mr. Nakatsu requested approval to start the RFP process for an Investment Consultant
11. Security Custodial Service - consider a RFP
12. Executive Director Recruitment Process

Councilmember Burgess thanked Mr. Nakatsu for the draft work plan report.

Councilmember Burgess further stated to proceed with canceling the SCERS Investment Advisory Committee meeting and to start the RFP process for an Investment Consultant.

Mr. Walter commented that the SCERS Investment Advisory Committee serves as advisors to the Investment Committee and request the role of advisors not change. Mr. Walter agreed that the Board may want to consider a RFP process for a Security Custodian contract at a later date.

Ms. Becker commented she did not see a Strategic Plan outlined on the draft work plan. She requested a Strategic Plan be added and that a strategic discussion may be necessary. She further recommended the following be added to the work plan: Performance Metrics and a Social Investment Policy.

Councilmember Burgess asked the Board if there were any further questions and/or comments regarding the Work Plan. There were none.

Mr. Nakatsu requested the Board members review the work plan and email any recommendations. The Work Plan will be provided to the Board in final form by the August 2013 Board meeting.

#### **SCERS Operations Update**

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

#### **SCERS Operations**

##### **SCERS 2014 Budget Summary**

Mr. Davis reviewed the City Budget process timeline and SCERS 2014 budget summary.

The budget timeline is:

- May 2013: City Departments submit Budget Issue Papers (BIPS) to City Budget Office. SCERS submitted BIPS for IT Analysts.
- July 2013: City Departments submit budgets (changes from Endorsed budgets) to City Budget Office. SCERS submittal included the I.T. Analyst positions and addressed the cost allocation budget error.
- September 2013: Mayor presents 2014 Proposed Budget to City Council
- November 2013: City Council adopts 2014 budget

SCERS 2014 budget summary includes:

- SCERS budget covers the administration of the fund not the investments or the annual pension payments.
- The 2014 Endorsed Budget includes the salary and benefit expenses for 18 permanent positions.
- The largest expense in the operating budget is the consultant and investment management services.
- The 2014 Budget proposal SCERS included two term-limited IT Professional B positions. The justification for the positions allows improvements in data structure and system functionality in advance of the pension administration system.

The items not included in the budget are:

- Future pension administration system, and the data conversion and clean-up that would be required as part of the pension system project.
- Future staffing changes in 2013 will be budget neutral.

#### **Cash Flow Capacity Analysis Project**

Mr. Davis presented the Draft Cash Flow chart. The chart reflected the cash take-in and take-out for each month, revenues, expenses, ending cash balance and operating deficit without transfer.

## **IT Updates**

Ms. Foster reported the Port Retirement Information System to Oracle project is on schedule to “go live” on the new system July 30, 2013. The system was turned over to the functional team on July 12th for User Acceptance Test. They will be using a structured testing process to test the system and reports from the business perspective. After we cut over to the new system, we will continue to process contributions in both systems through August as part of our system validation.

The Windows 7 migration is on track. The deployment dates are scheduled for early September 2013.

The IT consulting services engagement has begun. Mr. Akio Tagawa, President of Linea Solutions was on site June 18 – 20, 2013 to begin gathering information about our processes and systems.

Ms. Foster introduced Mr. Tagawa to the Board and indicated he was at the meeting to provide his perspective on industry trends, share early observations about SCERS environment, and answer any questions from the Board.

Mr. Tagawa provided the Board with an overview of Linea Solutions, outlined their pension fund experience, and reviewed the industry trends.

Mr. Tagawa outlined Phase I and Phase II of the project:

- Phase I: Planning Phase
- Phase II: Needs and Gap Analysis (business & technical requirements and feasibility report and options analysis).

Linea Solutions will report results of Phase I and II at the October 10<sup>th</sup> Board meeting.

The project plan also includes a Phase III and IV but those phases are conditional based on the Board’s Phase I and II decisions.

Mr. Tagawa outlined Linea Solutions initial assessment of the operational issues and their preliminary observation is that there may be systems in the industry flexible enough to meet SCERS needs.

There were questions and comments from the Board members.

## **New Business**

### **City of Seattle and SCERS Policy for Amortization**

Mr. John McCoy with Legislative Central Staff presented an overview of a proposed resolution amending Resolution 31334 clarifying the City’s approach toward amortizing the unfunded liability of the Seattle City Employees Retirement System. The proposed revisions are:

- Include sufficient appropriation for the City to increase its contribution to the system from 11.01% to 14.21% of regular (non-overtime) payroll into SCERS. This will increase the combined contribution from 21.04% to 24.34%.
- Beginning January 1, 2013 close and fix the amortization period effective January 1, 2013. This proposal will generate a contribution rate sufficient to retire the system’s unfunded liability over the period January 2013 – 2042. The proposed Resolution also provides for subsequent review since closed amortizations can generate excessive contribution rate volatility in the second half period, City Council may consider re-opening the amortization period after 15 years.

Mr. McCoy stated that City Council would like the analysis from the actuary in March 2014.

Mr. Nick Collier with Milliman commented on the proposed Resolution and stated he was generally supportive. He further commented that this was a good start to amortizing the systems’ unfunded liabilities.

Mr. Collier stated the experience study would be reported on in April/May 2014 timeframe.

The Board recognized the unfunded liabilities needed to be addressed.

Mr. Collier commented he recommended waiting until after the 2014 Experience Study to reach a decision on closing the amortization period as there could potentially be a number of choices to discuss at that time.

Councilmember Burgess stated this was not a SCERS Board of Administration action item.

### **Governance Committee Report**

Ms. Becker reported the Governance Committee met on June 18<sup>th</sup>. Present at the meeting were Ms. Becker, Committee Chair, Bob Harvey, Committee Member, Sherri Crawford, Committee Member, Ken Nakatsu, Jeff Davis, and Cecelia Carter with SCERS Office, Jeff Slayton, Seattle City Attorney's Office, Mike Monaco, Song Mondress Law Firm.

The Committee discussed a strategic work plan, the geopolitical policy, and the revision of SMC 4.36.140 related to establishment of committee structure.

The Governance Committee and staff agreed the immediate issues to work on are (1) complete charters; (2) policy on social investing; and (3) operational matters.

The next Governance Committee meeting is scheduled for July 31, 2013 at 2pm.

There were no questions or comments from the Board.

Councilmember Burgess asked the Board if there were any other items to be presented. There were none.

### **Adjournment**

**Motion:** Upon motion by Tim Burgess, seconded by Bob Harvey, the Retirement Board voted to adjourn the meeting at 11:20am.

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David L. Stewart, Secretary