



Seattle City Employees' Retirement System
Board of Administration Meeting
 Thursday, June 12, 2014 @ 9am
 720 Third Avenue, 9th Floor (Pacific Building)
 (206) 386-1293

MINUTES

Board Members Present: Chair; Lou Walter Robert Harvey; Glen Lee; Sherri Crawford, Jean Becker

Board Members Absent: Councilmember Nick Licata, Susan Coskey

SCERS Staff Present: Ken Nakatsu, Jeff Davis, Tony Smith, Jill Johnson, Claire Foster, Carmen Valerio

Others Present: Mike Monaco, Song Mondress Law Firm; Carlton Seu (arrived at 9:54), Seattle City Attorney's Office; Tom Kirn, FAS; George Emerson, FAS; Cynthia Scheiderer, SCERS Consultant, Florence Katz; City Personnel, John Masterjohn; ARCE

Call to Order Chair; Lou Walter called the meeting to order at 9:01am.

Public Comment: The Seattle City Employees' Retirement System Board of Administration welcomes comments from the public at regular meetings. Each speaker is limited to two (2) minutes total speaking time, regardless of the number of items of he/she wishes to address.

Public Comment:

No public comment.

Administrative Consent Agenda

Minutes:

Provided in the Retirement Board packet was the minutes from the May 8, 2014 Retirement Board regular meeting. The following items represent normal expenses and nothing extraordinary.

Motion: Upon motion by Glen Lee, seconded by Jean Becker, the Retirement Board of Administration accepts the Administrative Consent Agenda.

Service	\$11,427,322.10
Beneficiary	\$920,362.75
Disability	\$73,048.39
Pension Payroll – PPE May 2014	\$12,420,733.24
 Office Payroll – PPE May 6 and May 20, 2014	 \$108,732.25
 Vouchers Processed –May 31, 2014	 \$243,889.05
*Expert and Consultant Services – \$ 88,393.33	
*Investment Management Fees – \$16,672.50	
*Interdepartmental Charges - \$106,972.64	
*Miscellaneous - \$31,850.58	

Immediate Withdrawals of Contributions for the month of May 2014:

Member Name	Department Name	Position
Anderson, Jennifer	SDOT	Envr Anlyst St
Capelouto, Albert M	Library	Delivery Driver
Coerver, Melanie E	SDOT	Envr Anlyst Assoc
Deruyter, Neil J	FAS	Animal Ctrl Offcr II
Giacomini, Dena E	City Light	Envr Anlyst Sr
Gilliam, Alice L	Library	Library Assoc I
Haverluk, Bernard P	Parks	Golf Grdskpr II
Hennen, Matthew A	HSD	Fin Anlyst Sr
Johnsrud, Kevin R	Library	Sys Anlyst I
Lauderback, Pamela R	Leg City Concil	Admin Staff Anlyst

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Park, Heidi R	Exec	Mayor Staff Asst 2
Rayburn, Teresa K	SPU	Mgmt Sys Anlyst Asst
Rutherford, Michelle L	Law	City Prosecutor
Singh, Anumitha M	Fire	Infor Tech Prof B
Walker, Lee Ann	Police	Comms Dispatch I
Wan, Christina L	City Light	Strat Advr 3
Wushishi, Larai N	City Light	Info Tech Prof B

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

Withdrawals for a total of: \$410,746.04

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
Alexander,Mabel	5/7/2014	64	25	193	PublicUtil	Senior Exec Asst
Barnett,John L	5/7/2014	68	8	246	City Light	Exec 2
Boden,James H	5/2/2014	62	23	15	PublicUtil	Facilities Maint Worker
Bondeson,Eric S	5/7/2014	66	30	122	Parks Dept	Rec Attendant
Bos-Welton,Martha E	4/23/2014	55	25	230	DPD	IT Prof B
Carriere,Roland M	4/11/2014	68	5	3	Parks Dept	Maint Aide
Chandler,Jessica L	5/2/2014	64	6	364	Library	HR Generalist
DeBoldt,Linda E	5/2/2014	53	27	251	PublicUtil	Exec 3
Eagan,Michael J	5/1/2014	66	6	7	PublicUtil	Sr Public Relations Spec
Fridriksson,Petur	4/13/2014	59	23	159	Vested	Vested
Furutani,Sharon M	5/7/2014	64	33	354	PublicUtil	Acct Tech II
Hamilton,Isabel A	4/12/2014	73	17	128	Parks Dept	Concss Coordin
Harris,Grace A	5/1/2014	66	12	175	PublicUtil	Strat Advr 2
Jennings,Earl J	4/16/2014	64	7	200	Sea Center	Admin Spec I
Kennedy,Corinne L	5/3/2014	64	8	89	Vested	Vested
Lynch,Stanley J	5/3/2014	69	18	358	City Light	Prot&Cntrl Elect II
Marleau,Linda M	5/2/2014	53	27	69	SDOT	Assoc Civil Engr Spec
McKenzie,Frank P	4/23/2014	62	27	7	PublicUtil	Assoc Enviromental Analyst
McMillan Sr,Jeffery L	5/2/2014	55	30	46	Parks Dept	Utility Laborer
Proffer,Mary J	5/7/2014	64	23	132	Police	Admin Spec II
Schwab,Norman A	4/12/2014	62	18	84	LegCtyCncl	Legist Strat Advr
Skeel,Timothy O	5/7/2014	58	26	160	PublicUtil	Strat Advr 2
Sorensen,Kathyrn A	4/28/2014	62	8	137	Vested	Vested
Spengler,Tamsen R	5/7/2014	67	6	300	Human Svcs	Sr Grants and Contracts Spec
Van Horn,Lisa J	4/19/2014	55	21	46	FIRE	Manager 1
Walstead,Mark J	5/2/2014	64	6	361	SDOT	Senior Financial Analyst
Wheeler,Linda K	5/2/2014	365	11	291	Vested	Vested
Williams,R C	5/7/2014	80	26	338	Law Dept	Asst City Attorney
Chiu, Shannon S	5/7/2014	55	31	93	Police	Admin Support Supervisor
	Average	73	18	171		Total Added to Monthly Pension Payroll
	Median	64	21	159		Average Pension Amount
						Median Pension Amount

For the month of May 2014: 82 new Members entered the System, 33 terminations, 29 Members retired in the System, 12 Members removed (\$15,766.69), 3 D/E Option, 4 F Option, and 8 over 60% benefit.

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Motion: Upon motion by Glen Lee seconded by Jean Becker the Retirement Board of Administration approved the Administrative Consent Agenda.

- Minutes of the May 8, 2014, Board Meeting
- Ratification of Retirement Payroll, Office Payroll, Other Payments and Withdrawals
- Ratification of Service Retirements for the month of May 2014

The motion carried unanimously.

2013 Draft Audit – CliftonLarsonAllen

Mr. Thomas Ray, presented the analysis of SCER's financial performance during the years December 31, 2012 and December 31, 2013. A management letter and a SAS114 will be submitted at the July meeting. If no questions from the Board, the final version will be provided in July. Mr. Glen Lee asked if the Board could receive the final version in the next couple of days. Mr. Davis responded people will receive a copy of the draft report soon. Mr. Thomas mentioned the Board will receive the final version the end of next week. Mr. Lee asked if there is an analysis for the funding ratio for 2013. Mr. Nakatsu responded Milliman's report will drive contributions.

Customer Request Management System (CRM) (Cynthia Scheiderer)

Ms. Scheiderer provided an update on the new CRM system. Ms. Scheiderer read a quote that summed up, at the time, a key recommendation to get a tool in place to allow work to happen more effectively and efficiently. The system went live April 28. Ms. Scheiderer mentioned the implementation is a team effort and thanked the leadership and everyone that participated and contributed. Ms. Scheiderer went over three objectives. Better member service: provides information to members, key customer service, sends email to member when they make changes and closes the loop with members. Better information: we have a suite of reports; volume reports, service level reports, etc. Mr. Lee asked about reports on operations. Mr. Davis reported that we have interesting preliminary information. We can look at service requests, turnaround time and requests with short turnaround time and see each Retirement Specialist's queue. This first set of data was 400 records entered all at once but we will get better information going forward. Mr. Davis will ask Board about what are some indicators they are interested in regarding how operations are functioning. Better teamwork: CRM has automated internal communications, creates messages that get attached to service requests and goes to their colleagues. This automation provides for less likelihood of information falling through the cracks. Ms. Becker asked if policies and procedures are being documented. Mr. Davis mentioned the procedures are based on "how do I do this task?" Ms. Scheiderer mentioned the new employees are also using CRM. Ms. Scheiderer gave credit to the team for a smooth user adoption. There was a learning curve but staff are now seeing the benefits.

Mr. Davis mentioned this is being done at the same time as a business shift where each Retirement Specialist has a set of members they are responsible for. This new shift helps clarify roles and ownership. There are other recommendations being implemented; written correspondence for consistency, "style guide" and are also prioritizing documents to update. Working with CityWeb team and going through our web site to organize content and make it easier to navigate. The goal to go live with the new web content is end of August.

Executive Session Discussion of Private Equity Program Manager

The Board of Administration entered into Executive Session at 9:28 for 10 minutes to discuss the Private Equity Program Manager. Executive session ended and the meeting resumed to public session at 9:39am.

Motion: Upon the motion of Bob Harvey, Jr., seconded by Jean Becker, the Board of Administration approves the selection of Adams Street Partners as SCERS' discretionary separate account private equity manager, contingent upon the successful negotiation and execution of an agreement with Adams Street Partners. If negotiations with Adams Street Partners is not successful, staff may begin negotiations with the other finalist.

Investment Committee Report (Tony Smith)

Private Equity Program Manager Finalist Interviews

Mr. Smith reported on the details of the Private Equity search. SCERS received 21 responses to the RFP, but four did not meet the minimum required qualifications. PCA and Staff scored the proposals independently and had a subsequent discussion to

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determine three finalists. The three firms that emerged were Adams Street Partners, Hamilton Lane, and Morgan Stanley Alternative Investment Partners. All of the finalists are outstanding organizations--demonstrating persistence of historical performance, solid back-office support, a culture of compliance, and rigorous oversight of the underlying general partners. Although they all shared these key attributes, there were some differentiating factors among the firms in terms of portfolio construction, philosophical approach to investment analysis, staffing of global offices, performance history, and fee structures. The Investment Committee ultimately recommended that Adams Street Partners be chosen as the private-equity program manager, subject to successful contract negotiations.

Investment Accounting Summary Report – April 2014 (SCERS Staff)

Staff reported on the Investment Accounting Summary. As of April 30, 2014, the Total Portfolio had a market value of approximately \$2.3 billion. The change in market values of the plan's asset classes generally moved in line with the financial markets. For the month of April, the Portfolio's market value rose approximately 0.5%, bringing the year-to-date increase in value to 2.3%. The funding ratio was nearly 70% as of the end of April. SCERS received net distributions of approximately \$567K from the private-equity managers and \$237K from the real-estate managers. The cash overlay program contributed \$330K in April.

ESG Proposal to Cease Investing in Private Equity

Mr. Smith provided a recap on the proposal that Mr. Greg Hill submitted to the Investment Committee that requested that SCERS cease investing in private equity. This proposal was routed through the Board's formal ESG policy procedure. The procedure calls for SCERS's consultant, NEPC, to analyze and render an opinion on such proposals. NEPC concluded that there are other investment options available to SCERS in lieu of private equity; however, they mentioned that public funds are the largest investors in the private-equity asset class and have an average allocation of 7%. They further stated that eliminating private equity from the SCERS portfolio would lower the expected return by approximately 0.25%. This would necessitate an additional contribution by the City to the Plan of about \$6 million annually. The Investment Committee voted unanimously to reject Mr. Hill's proposal.

Mr. Nakatsu mentioned that SCERS would be an outlier if it chose not to invest in private equity. Mr. Walter mentioned that we need private equity to help achieve our performance objectives.

Motion: Upon motion of Jean Becker, seconded by Bob Harvey, Jr., the Board of Administration rejects ESG proposal titled "Reconciling the Retirement System's Fiduciary Responsibilities with the City's Commitment to 'Democracy, Equality, and Justice'".

1st Quarter 2014 Performance Report

The portfolio trailed its policy benchmark by 0.65% for the quarter and 1.68% for the trailing 12 months. Two of the portfolio's private-equity funds had portfolio companies that had their valuations adjusted downwards. Additionally, being underweight the private-equity asset class contributed to the underperformance. A similar story played out for the portfolio versus the median public plan where SCERS trailed by 0.28% and 0.21% for the quarter and trailing 12 months, respectively. The Plan was in the third quartile for the quarter versus other public plans; however, the Plan's US Equity composite was a first-quartile performer for the quarter. The Plan, excluding the Workout Portfolio, bested the median public plan by 0.55% for the trailing 12 months.

Motion: Upon motion of Glen Lee, seconded by Sherri Crawford, the Board of Administration accepts the 1st Quarter 2014 Performance Report as presented by PCA.

Administrative Committee Report (Jean Becker)

Ms. Becker mentioned the Administrative Committee last met in March. At the March meeting there was a presentation on proposed code changes to the Seattle Municipal code and changes the Board would like to make; service credit and annual average salaries. The Committee will meet again today to discuss the SCERS' strategic plan prepared by the staff. In February the Committee approved SCERS's mission, vision and values.

Executive Director Report (Ken Nakatsu)

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Mr. Nakatsu reported on the CIO recruitment and timeline of the process. City Personnel has identified three recruiters and we hope to select and engage with one recruiter soon. The recruiting process will begin in early July and we will hold interviews in August. Mr. Nakatsu reported on the meeting with NEPC. The discussion was on some initial tasks NEPC would undertake and their approach to fixed income that will be discussed at June Investment Committee meeting. NEPC will present ideas on real estate at the October or November Investment Committee meeting and present asset liability and capital market analysis in February 2015.

Labor Review of the Proposed Changes to Benefits Calculations – Ken Nakatsu

2015 Credit Interest Calculation

Mr. Nakatsu reported he and Tim Morrison met with Labor in late May. Labor had a favorable response to what SCERS's is working on. Another meeting is scheduled with Labor on June 18. Timeframe of the work was explained to Labor; want to get issues resolved before fall budget review and before SCERS's acquires a pension system; 1) service credit 2) final average salary and 3) Seattle Municipal Code changes. Labor is more focused on funding level and evaluation. Mr. Nakatsu mentioned that the Board takes action on credit interest next month followed by council resolution.

Mr. Nakatsu reported June through May a 3.66% monthly average for treasury bonds. Also, given where we are at funding ratio in the past couple of years we have not added a .25%. Mr. Lee asked if we need to review and discuss whether if we want to add a .25% percent to the funding ratio.

SCERS Operations/Finance

SCERS Operations Project Updates (Jeff Davis)

Mr. Davis reported that Milliman will be at the July Board meeting to present the final Valuation report. Also at the July meeting will be CliftonLarsonAllen to talk about final 2013 Audit report.

The Board of Administration entered into Executive Session at 10:12am for 10 minutes to discuss a matter relating to Securities Litigation.

Adjournment

The meeting adjourned at 10:25