



MINUTES

Board Members Present: Robert Harvey, Jr., Chair; Lou Walter (via phone); Glen Lee (9:07 a.m.); Jean Becker; Sherri Crawford

SCERS Staff Present: Jeff Davis; Tony Smith; Jill Johnson; Claire Foster; Tim Morrison; Nina Melencio

Others Present: Mike Monaco, Song Mondress Law Firm; Carlton Seu, Seattle City Attorney's Office; Tom Kirn, FAS; George Emerson, FAS; Florence Katz, SDHR; John Masterjohn, ARSCE; Andrew Feucht, K&L Gates; Margaret Niles, K&L Gates

Mr. Harvey called the meeting to order at 9:05 a.m.

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

There was no public comment.

Administrative Consent Agenda

Minutes:

Provided in the Retirement Board packet was the minutes from the September 11, 2014 Retirement Board regular meeting.

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

Service	\$11,613,286.28
Beneficiary	\$931,757.74
Disability	\$75,295.38
Pension Payroll – PPE September 30, 2014	\$12,620,339.40
Office Payroll – PPE September 9, 2014 and September 23, 2014	\$137,547.49
Vouchers Processed –September 30, 2014	
*Expert and Consultant Services –	\$234,362.57
*Investment Management Fees –	\$621,157.06
*Interdepartmental Charges -	\$105,955.71
*Miscellaneous -	\$79,059.34

Immediate Withdrawals of Contributions for the month of September 2014:

Member Name	Dept Name	Position
Boyce, Jerol D	Police Department	Legal Assistant
Cheng, Lennon W	Dept of Transportation	Civil Engr - Sr
Clark, Noel C	Public Utilities	Delivery
Ferrer Jr., Eddie S	Civil Right - Policy & Enforcement	Info Tech - Sysys Anlyst
Gilliam, Beverly J	Finance Admin Services	Janitor - Lead
Lambert, Edward C	Finance Admin Services	Janitor
Langhans, Patricia E	City Light	Mgmt Sysys Anlyst
Le, San D	Library	Library Assoc II
Lin, Laura R	Library	Library Assoc I
Lyman, Patrick M	City Light	Lineworker
Oswald, Alexandra M	Police Department	ID Tech

Poole, Joseph C	Seattle Center	Stage Tech
Post, Emerald H	Police Department	Dispatcher I
Prisacari, Sergiu	Planning & Development	Prinipal Accountant
Robinson, Marchelle J	Human Services	Asst Personnel Spec
Thompson, James C	Planning & Development	Housing/Zoning Insp -Supv
Woods, Kyle E	City Light	Lineworker
Wushishi, Larai Nana	Library	Info Tech Prof B
Zucchetto, Nikki L	Human Services	Fin Anlyst Supv

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

Withdrawals for a total of: \$461,016.34

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
Berard Jr, Donald J	9/4/2014	63	14	145	Police	Supervising Mgmt Systems Analyst
Bishop, Gregory A	8/15/2014	64	40	89	KC Health	Investigator IV
Boone, Doris L	8/30/2014	60	33	163	Police	Parking Enforcement Officer
Boyce, Cindy A	9/4/2014	58	33	203	Parks Dept	Admin Spec II-BU
Bradshaw, Althea R	9/4/2014	57	16	75	SDOT	Associate Civil Engineer
Carlquist, Brad J	8/9/2014	62	8	179	Vested	Vested
Elder, Regina A	8/13/2014	63	16	149	Vested	Vested
Ketelsen, James A	8/2/2014	67	34	66	City Light	Streetlighting Journeyman
Keys, Barbara A	8/27/2014	49				
Keys, Victor G	8/27/2014	57	30	322	DPD	Mech Inspector Supv
King, Shama M	8/13/2014	70	20	36	City Light	Program Intake Rep
Newlin, Elizabeth H	8/2/2014	56	10	30	Police	Latent Print Examiner
Perry, Patty A	8/13/2014	54	25	34	SDOT	Sr. Bridge Operator
Phillips, Sheila M	8/23/2014	62	9	163	City Light	CSR
Schmid, Robert G	8/2/2014	50	30	132	Sea Center	Metal Fabricator
Schwartz, Gary L	8/1/2014	59	35	43	Parks Dept	Utility Laborer
Sutton, Gary L	8/2/2014	62	28	314	FAS	Auto Mechanic
Taylor, Patsy S	8/6/2014	65	28	139	City Light	Labor Relations Coordinator
Terrana, Gina M	8/26/2014	53	27	360	Library	Library Assoc II
Thibert, Neil F	8/27/2014	62	29	262	PublicUtil	Manager 3
Zeldner, Wendy S	8/13/2014	63	30	92	City Light	Manager 3
	Average	59.81	25.32	149.8		
	Median		28.00	142		

For the month of September 2014: 24 new Members entered the System, 9 terminations, 21 Members retired in the System,

13 Members removed (\$20,509.08), 4 D/E Option, 4 F Option, and 6 over 60% benefit.

Mr. Harvey asked the Board if they had any questions concerning the Administrative Consent Agenda.

There were none.

Motion: Upon motion by Sherri Crawford, seconded by Jean Becker. the Retirement Board of Administration approved the Administrative Consent Agenda. (Unanimously, 5-0)

- Minutes of the September 11, 2014, Board Meeting
- Ratification of Retirement Payroll, Office Payroll, Other Payments and Withdrawals
- Ratification of Service Retirements for the month of September 2014

Credit Interest

Tim Morrison presented a review of the Credit Interest options that had been presented at previous board meetings. He also provided information on an actuarial consultation the Board had requested at the last meeting.

In July 2014, the Board reviewed Credit Interest options for 2015 and looked at the policy. A credit interest policy was adopted in 2011 but did not account for the Board's actions subsequent to 2011. At subsequent meetings two options were reviewed:

1. When funding ratio was at or above 80% fund the .25%
2. The Board has discretion on when to apply the additional .25% based on a review of a number of criteria

Questions arose on why there was a cap. At the most recent meeting, staff were asked to consult with SCERS' actuaries about the impact of removing the cap. The most recent memo dated October 9, 2014 was in response to this request. Two actuaries had similar responses. Both stated that removing the cap would not have an immediate impact on valuation or calculation of the ARC. However, there is a risk of removing the cap as illustrated in the 1980s. The treasury interest rose to the double digits and beyond, but that didn't necessarily get always higher performance in the fund.

Ms. Becker asked if the 2x contribution feature was the policy of the board or the city. According to Mr. Morrison, it's part code and that SCERS is obligated to provide members with that and backing away would be problematic.

Mr. Lee added that it is his understanding from legal that it would require a partnership from labor and a change in code.

Mr. Masterjohn confirmed that it was also his understanding.

Mr. Harvey would like to find a way to begin a discussion and come to a conclusion about this topic. Mr. Morrison stated that at the last meeting there was a motion on the table to accept the 80% and an amendment to the motion to remove the cap.

Mr. Harvey stated that he was one of the supporters with removing the cap and he is now removing his support. He is now trying to determine if we have support for removing the cap.

Mr. Walters thinks removing the cap is a mistake, a risk. The whole purpose of credit interest is to reduce liability. He is not in favor of a motion taking it away. He thinks by removing the cap, it would create a larger problem.

Mr. Harvey stated that his position has changed.

Ms. Becker would like to see what the impact would be with assumptions. She thinks she is okay with the withdrawal of the cap issue.

Mr. Harvey stated that with approach #1, we would not add .25 basis points unless we are above 80%. Would somebody else like to discuss that being permanent, or discuss only about the 80%?

Mr. Walters believes there was an understanding in the original proposal was acted on a couple of years because it reduced the liability savings reduction in fund ratio. It was in favor of .25%, a permanent benchmark. There was a significant reduction for members.

Mr. Harvey stated there's a motion on the floor to look at an 80% funding ratio.

Ms. Becker said when they had talked about this previously and they had voted, she was surprised that the .25% was not part of the discussion. She was interested in a benchmark. She did not think they had said they were going to give .25% basis points above that. She is kind of with Lou, having a baseline 30 year treasury, adding .25% on top of that with a cap. It makes it more palatable. That is where she is leaning.

Mr. Harvey asked if there was any more discussion.

Mr. Davis asked if they could formally do away with the amendment to remove the cap.

Mr. Seu advised that they can either withdraw or vote down the amendment.

Ms. Becker formally withdrew her motion. Mr. Harvey formally withdrew his second to the motion.

Mr. Harvey continued and stated that they have now heard from two board members, they will now accept the motion on the table, look at 25 bases points after have funding above 80%.

Motion: Upon motion by _____, seconded by _____, the Retirement Board of Administration amends the 2011 Credit Interest Rate Policy as follows:

The Board will set the interest rate with a view toward the market returns of other low-risk or risk-free investments. When the funded ratio in the actuarial valuation for a given year is below 80%, the interest rate for the following year will be ~~The policy target for the SCERS interest rate effective each January 1 will be the average yield on 30-year U.S. Treasury Bonds during the most recently preceding June 1 to May 31 period. In year's when the funded ration is 80% or higher, plus 0.25% will be added to the rate. The, with a maximum credit interest rate equal to will be 5.75%.~~

The motion carried (3-2) with Mr. Harvey, Mr. Lee, and Ms. Crawford voting "Yay", and Ms. Becker and Mr. Walters voting "Nay".

Extension of Contract between SCERS and RhumbLine Advisers Limited Partnership

Jeff Davis explained that this item was to extend the contract between SCERS and RhumbLine Advisers Limited Partnership for another two years. This is an index fund that has performed well.

Motion: Upon motion by Lou Walters, seconded by Glen Lee, the Retirement Board of Administration approves the extension of the contract and Rhumbline Advisers Limited Partnership as designated on the amendment.

The motion carried unanimously (5-0).

Administrative Committee Report

Jeff Davis reported that there have been extensive conversations about the Dashboard with great feedback. Ms. Becker and he will be meeting again today, then present a revised version to the Administrative/Governance Committee before bringing it to the full Board.

Investment Committee Report

Tony Smith indicated that the September Investment Committee (IC) meeting had three primary topics:

- Unconstrained Fixed Income
- Private Equity Benchmark Recommendation
- Asset Liability Study

The committee had their third educational presentation on unconstrained fixed income. The IC approved staff and NEPC to investigate the viability of unconstrained fixed income for possible incorporation into SCERS portfolio. This research will be conducted parallel to the asset/liability study.

At the September IC meeting, Don Stracke of NEPC covered the case for portfolio diversification and NEPC's 2014 asset class assumptions in opening up the new asset/liability study. Expectations are that the markets will have muted returns. The target to finish this study is the middle or end of first quarter.

The other item on the docket was private equity. NEPC recommended that SCERS change its private-equity benchmark from the Russell 3000 + 3% to the Cambridge Private Equity Index. The rationale for doing so is to draw a more relevant comparison by measuring SCERS' private-equity results against other private-equity funds. Mr. Smith thinks it's a good idea.

Investment Accounting Summary Report – August 2014

Mr. Smith reported that August was a good month. Markets were up 4%, although it was flat for the quarter.

SCERS had over \$1MM in net distributions from its private-equity managers. He was happy to report that SCERS did sign the contract with Adams Street Partners on September 19th.

We received approximately \$300,000 real-estate distributions. The JP Morgan Alternative Property Fund, which resides in the Workout portfolio, distributed approximately 75% of its remaining balance. This helped reduce the balance in the Workout portfolio.

The Funding Ratio is back to 70%, the third time we have hit that level since the Financial Crisis. The most recent high is 71% back in May.

Executive Director Report

Jeff Davis is Interim Executive Director while Ken Nakatsu is on vacation.

Mr. Davis reported that after the Board and then the Council approved how to calculate average yearly salary and service credit, internal training is being put into place. This is the work of Tim Morrison and Cynthia Scheiderer, a consultant. There will be a series of trainings this month and into next month to give staff the tools to put it in place. The goal is efficiency and a way to memorialize the information. They will be given a template. If a member returns next year, the staff member will be working off the information that was used the previous year. This work was provided by Tim.

Mr. Harvey asked if there will be a document that members can refer to so the member can see how it works.

Mr. Davis replied that the staff is looking at revamping the handbook by, perhaps, combining the FAQs and the handbook.

Mr. Harvey wanted to know if he was a new employee, what type of retirement information he is given by Human Resources.

Mr. Davis indicated that was a work in process. There is an older document that some HR departments give their employees. The document is mostly correct. SCERS wants to get together with HR units and look at how they are doing their onboarding.

Mr. Harvey asked what becomes a contract? What HR is giving or what SCERS has on the website?

According to Mr. Seu, it's the municipal code. Although if we are handing out documents that do not have disclaimers we may be bound.

Audience member Florence Katz stated that she is from the Human Resources Department and that there has been an effort the last few months to revise new employee orientation in all departments. Home departments are to focus only on their jobs and work with their training units. They should be sending all their new employees to them.

Ms. Katz continued by saying that as someone who is vested, she went on the SCERS website and by using the on-line calculator; it stated she couldn't retire until 2099.

Mr. Davis let her know that the website is being updated right now and that SCERS staff is having discussions with actuaries and changes have recently been made in how to calculate the final average salary and service credit. The calculator on the website will also be changed. A revised member portal will be part of the pension administration system.

Mr. Davis also wanted to update the Board on a number of staffing changes made over the course of the year. One is Nina who is the new Executive Assistant. Jason Malinowski, the new Chief Investment Officer, is starting later this month.

Claire Foster has hired two IT professionals, Kathy Weitz and Janet Donlon. Lee Brunk was hired as a Retirement Specialist and Nitaya Kambhiranond as an Accountant.

SCERS also recently hired two term limited Retirement Specialists, Tomeka Williams and Doug Noble.

Mr. Harvey asked if these were new positions or replacements.

Mr. Davis replied that the two new term limited positions are new positions. The two IT positions were added as part of last year's budget process. The others are reclassifications and/or direct replacement positions.

Mr. Harvey asked which hires were city employees.

Mr. Davis replied that both IT professionals, Ms. Donlon and Ms. Weisz, and our new Accountant, Ms. Kambhiranond transferred from other City departments.

SCERS's Work Plan

Mr. Davis stated that Mr. Smith had mentioned the Asset Liability Study which will be pretty all encompassing on the investment side. We changed the approach on fixed income and put the real return conversation on hold. As a result of this study we may take a different approach on asset allocation. The asset liability study is expected to be complete by the end of the first quarter of next year.

SCERS Operations/Finance

Claire Foster indicated that the Pension Administration System (PAS) is on target to release the RFP in November 2014. Staff is looking at selecting a vendor in April-May 2015. Staff is looking at an off-the-shelf, not custom product. They are also looking at an electronic content management product.

Staff is looking at an off-the-shelf, not custom product. They are also looking at an electronic content management product to help eliminate paper.

Mr. Harvey commented that by year end, it looks like the staff will have a lot of successes.

Ms. Becker wanted to compliment staff on the design of the back page of the work plan which gives the staff an opportunity to comment on staff accomplishments. This also gives the Board an opportunity to celebrate the staff.

Mr. Davis replied a lot of the credit goes to Sherri Crawford due to her suggestions.

Ms. Becker asked about the first page of the work plan under goals. She didn't see specifics for the fourth goal.

Mr. Davis replied that this was an ongoing effort. For most of the year, consultant Lisa Fitzhugh, who helped develop the Strategic Plan, has been working with staff. She is now working with an internal team of staff developing goals around the 4th goal.

The Board of Administration entered into Executive Session at 9:48 a.m. for 38 minutes to discuss ongoing litigation and legal risks of board action.

Executive Session ended and the meeting resumed to public session at 10:26 a.m.

Adjournment

Motion: Upon motion of Jean Becker, seconded by Glen Lee, The Retirement Board of Administration Voted (5-0) to adjourn the meeting.

The meeting adjourned at 10:26 a.m.

Susan Coskey, Secretary