



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

Minutes of Thursday, December 11, 2014 - **REVISION**

Board Members Present: Nick Licata (Chair), Glen Lee, Jean Becker, Lou Walter, Robert Harvey, Jr., Susan Coskey (by phone at 9:45 a.m.)

SCERS Staff Present: Kenneth Nakatsu, Jason Malinowski, Tony Smith, Tim Morrison, Nina Melencio

Others Present: Carlton Seu (Seattle City Attorney's Office), Mike Monaco (Song Mondress Law Firm), Lynn Fitz-Hugh, Tad Anderson, Aaron J. Silverberg, Selden Prentice, Karen Moskowitz, Jared Howe, Whitney and Mona Howe, Alex Lenferna

Nick Licata, Committee Chair, called the meeting to order at 9:00 a.m.

Public Comments

Mr. Licata started the agenda with public comment and reminded attendees that public comment would be limited to two minutes per person.

Lynn Fitz-Hugh from 350 Seattle.org thanked the board for voting to explore divestment. She stated that she hoped the next NEPC study explored a range of possibilities to consider, including just divesting from coal and tar sand.

Ms. Fitz-Hugh stated that divestment is a complex strategy, that it creates public debate that brings pressure on big plans, to examine whether the need to address climate change will impact value.

Alex Lenferna, a researcher at the University of Washington, stated that he was encouraged by the board's resolution. He is hopeful that the board looks beyond the U.S. Mr. Lenferna stated that coal was in a downward spiral, that a number of pensions are moving away from coal and tar sands, and that the U.K Energy Minister is calling coal, the canary in the coalmine. He said the board should protect themselves from the greatest risk and that divesting would be a good starting point.

Jared Howe lives in Seattle with his wife and child. He stated that everyone understands the danger of climate change and it is also true that fossil fuels are a risky investment. Mr. Howe said that global action to reduce carbon output would drive down the value of fossil fuel stocks. He mentioned Ed Davey, U.K. Secretary of State for Energy and Climate Change and others; and said that the "cold hard numbers don't look good".

Whitney Howe (with baby Mona) stated she understood the board's responsibility to their employees and retirees but should also consider their duties to the citizens of Seattle. She said that divestment is a powerful tool. Look at investing in future generations, rather than investing in fossil fuels, particularly coal, tar sands and oil. She asked the board to consider options and do what they know is the right thing.

Aaron Silverberg introduced himself as a concerned citizen who moved to Seattle in 1988 who is dedicated to be clean and green. He stated that this is an amazing opportunity to invest in clean and green energy to benefit untold generations. He mentioned electric cars. He advocated not just for fossil fuel divestiture, but also for other environmental issues, and thought the board should consider investing in the Calvert Fund.

Tad Anderson spoke about the South African divestment that affected his church in the 1980s. He stated the investment rate of return was also a high priority, and that the issue was highly divisive. His church divested from companies with direct ties to South Africa. He said divestment may not have affected these companies value but it

was important for public perception. Mr. Anderson hoped that the board would consider a range of options to find a strategy that protects the employees and helps society.

Selden Prentice said she agreed with Lynn Fitz-Hugh and that divestment makes a difference for the planet. She said when there is moral scrutiny on an industry, that industry loses strength. Ms. Prentice gave an example of the weakening of the tobacco industry. She stated that public scrutiny would equate to public awareness, which will weaken the fossil fuel industry as it did with the tobacco industry.

Mr. Licata asked clarification on NEPC's follow-up report that was requested at the last Investment Committee meeting.

Ken Nakatsu replied that NEPC was asked to do a report to the Investment Committee at its meeting on January 29, 2015, and then to the full board at its meeting on February 12, 2015.

Minutes:

Provided in the Retirement Board packet was the minutes from the November 13, 2014 Retirement Board regular meeting.

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

Service	\$11,852,557.60
Beneficiary	\$ 972,329.40
Disability	\$ 78,067.86
Pension Payroll – PPE	\$12,901,954.86
Office Payroll – PPE November 14 and 28, 2014	\$150,724.97
Vouchers Processed -	
• Expert and Consultant Services	\$ 73,267.80
• Investment Management Fees	\$214,790.28
• Interdepartmental Charges	\$114,058.72
• Miscellaneous	\$ 2,864.08

Immediate Withdrawals of Contributions for the month of November 2014:

MEMBER	Department Name	Position
Allen,Sherry L	DPD	Admin Spec II
Coen,Sean P	Parks	Lifeguard
Diga,Elmer D	Parks	Maint Laborer
Hughes,Rachel C	SPU	Acct Tech II
Little Sr.,John J	SPU	Drainage Wkr
Mar,Kari	Sea Ctr	Public Relations Spec, Sr
Reynolds,Melanie J	Neighborhood	Executive I
White,Elizabeth M	SPD	Dispatcher I
Wingren Jr,James M	SPU	Info Tech Prof B
Adams,Virginia L	Human Svc	Grants&Contr Spec, Sr
Barr,Bennett A	Exec-Mayor	Mayor Staff Asst 2



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Bautista, Alan R	City Light	Carpenter
Beach, Vernon G	DPD	Manager 2
Bell, Patricia L	HSD	Volunteer Prog Coord
Littlefield, Edwin L	FAS	Title Records Tech Sr
Pavel, Ward B	SPU	Manager 1
White, Robert A	Muni Court	Strat Adv 3
Williamson, Rosanne M	SPU	Water Pipe Worker

Bold entries (if any) above indicate refund payment made to beneficiary of a member dying while in active status.
Withdrawals for a total of: \$1,423,618.85

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
Bellin, Dorothy J	11/5/2014	65	34	288	City Light	Admin Spec III
Daoud, Shadia Y	11/5/2014	67	20	72	City Light	Admin Specialist II
Frank, Diane E	11/5/2014	66	7	316	PublicUtil	Info Tech Prof C
Gihring, Eugene H	11/5/2014	67	25	238	City Light	Electrician CC
Humes, Timothy W	10/7/2014	66	7	153	Vested	
Johnson, Jack G	11/1/2014	60	10	332	Vested	Vested
Ohman, Donna J	11/4/2014	56	30	18	PublicUtil	Civil Engineering Spec Supv
Oliver, Charles W	10/18/2014	64	33	72	InfoTech	Mgmt Syst Anlyst, Sr
Pace, Ronald W	11/5/2014	62	15	289	Muni Court	Chief Marshal
Ruggles, Norman L	10/22/2014	65	6	88.84	Vested	Vested
Sala, Tuere L	11/3/2014	57	12	312	Vested	
Walsh, Elizabeth A	11/5/2014	66	42	334	Library	Library Associate
Wollett, Frederick E	11/5/2014	69	18	51	Law Dept	Assistant City Attorney

For the month of November 2014: 30 new Members entered the System, 23 terminations, 13 Members retired in the System, 15 Members removed (\$31,214.13), 1 D/E Option, 2 F Option, and 2 over 60% benefit.

Motion: Upon motion by Nick Licata, seconded by Robert Harvey, Jr., the Retirement Board of Administration approved the Administrative Consent Agenda. The motion carried unanimously (5-0).

- Minutes of the November 13, 2014 Board Meeting
- Ratification of Retirement Payroll, Office Payroll, Other Payments and Withdrawals
- Ratification of Service Retirements for the month of November 2014

Extension of Contract between SCERS and Fisher

Jason Malinowski explained that the contract expired a week ago. He is asking that the contract be extended through January 1, 2017.

Motion: Upon motion of Nick Licata, seconded by Lou Walter, the Retirement Board of Administration approve the extension of the contract between SCERS and Fisher through January 1, 2017. The motion carried unanimously (5-0).

Resolution and Incumbency Certificate – Revised December 11, 2014

Ken Nakatsu stated that the resolution is required by the Bank of New York who is SCERS' custodian. They are now requiring to revalidate every six months. The resolution requires either Mr. Nakatsu or Jeff Davis to initiate transactions and be co-signed by one of the investment staff. It has to be attested by the secretary of the board and signed off by the treasurer. It is a technical formality.

Motion: Upon motion of Nick Licata, seconded by Lou Walter, the Retirement Board of Administration approved the revised Board Resolution and Certificate of Incumbency effective December 11, 2014. The motion carried unanimously (5-0).

Administrative Consent Agenda

Ms. Jean Becker gave an update of the November 20, 2014 Administrative Committee meeting. She stated that the committee has been working on a dashboard of performance measures for several months that are focused on four goals:

1. Customer Service
2. Implementation of Technology
3. Management of Funds
4. Organizational Change

These benchmark measures will be provided at the monthly board meetings and will be refined over time.

Ms. Becker stated it is the time of year to start assessing performance and would like to schedule a special Administrative Committee meeting in January after the Board Meeting to review what has been accomplished this past year and develop work plans for 2015. These will be brought to the Board in February.

Ms. Becker also would like to conduct a performance review for the executive director.

Lou Walter thanked Ms. Becker for her work on the dashboard.

There was a discussion on increased actuarial liabilities as a result of improved mortality and employees working longer. Mr. Licata wanted to know whether structured changes to the pension plan were necessary. Mr. Nakatsu replied that question is for the Mayor and Council to consider. The Board's responsibility is to administer and implement the plan.

Mr. Licata asked what drives pension costs and the actuarial assumptions. Mr. Nakatsu replied retirement benefits are very costly. Our investment return assumption is 7.5% per year for the next 30 years. We have nearly a 26% ARC. Employees are paying 10.03% out of pocket which is a substantial part of their pay. The city is paying 15.73%. That is a lot of money. The system is also recovering from investment losses in 2008 and 2009. We also have increased liabilities from the past.

New members would not be contributing as much into the system.



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Susan Coskey called into the meeting at 9:45 a.m.

There was further discussion about the dashboard report.

Mr. Nakatsu stated that the dashboard would be produced every month to supplement the work plan. The "Retirement Estimates" chart reflects the workload of staff. The workload is heavy and time-consuming because much of the work must be handled manually. This is why we are pursuing the new Performance Administration System (PAS). We have also hired two temporary staff and, fortunately, other staff have returned from leave. In September, Council passed changes to the Municipal Code that simplified a calculation of service credit and "final average salary". Mr. Morrison and one of our other staff, Lee Brunk, developed tools to perform these calculations more quickly and accurately.

Turnaround time is approximately 14 weeks from the time a member submits a request.

One of the other goals is to improve organizational culture. A consultant was hired and is currently assessing progress.

Susan Coskey asked about the new PAS and if the team was coordinating the request for proposal with DoIT and FAS. Mr. Nakatsu replied that the team was. Mr. Nakatsu stated that SCERS provided for the new PAS in the 2015/2016 budget, and are working closely with both FAS and DoIT.

Ms. Coskey asked if SCERS was getting HR support with the employee feedback survey. Mr. Nakatsu replied the process began very early in the year before we began receiving support from HR.

Jason Malinowski described the investment page of the dashboard. It reflects the performance of each of the asset classes in the portfolio.

In response to a question about investing in non-U.S. equities, Mr. Malinowski stated we do not want a home bias. He indicated the U.S. has done well the last 3-4 years, better than the European markets. But that we should be diversified and from a valuation perspective, U.S. equities are less attractive.

Investment Committee Report

Tony Smith gave an update of the November 20, 2014 Investment Committee meeting which members of the Investment Advisory Committee also attended. There was public comment on divestment. We will pick up the discussion at the January 29, 2015 Investment Committee meeting after receiving NEPC's follow-up report.

Other discussion items from NEPC at the Investment Committee included the risk tolerance survey. The survey will be collected on Monday, December 15, 2014. The board's "appetite" for risk is an integral part of the risk tolerance study.

Mr. Smith stated that at the Investment Committee meeting we also reviewed new Investment Class terminology.

NEPC reviewed the 3rd quarter performance report at the committee.

Investment Accounting Summary Report – October 31, 2014

Mr. Smith gave the October 31, 2014 report. Adams Street began to call capital. In real estate, Heitman has called all of our \$50M capital commitment, which is good news.

The value of the portfolio is up a little over 1% for the month. November is looking about the same.

The funding ratio is 68% at the end of October.

Jason Malinowski gave a brief overview of his and Mr. Smith's trip to California this past week. They met with the Orange County Employees' Retirement System and the San Bernardino County Employees' Retirement Association. They also spent a half day with PIMCO and Western Assets. They will present their report at the Investment Committee in January.

Executive Director Report and SCERS' Work Plan

Mr. Nakatsu reported that the RFP for the Pension Administration Plan (PAS) went out on November 26, 2014. The time to complete the evaluation of responses was extended from the beginning of May to July.

One thing that is not on the work plan but may show up next month is fossil fuel divestiture analysis since the board and staff have been spending so much time on it.

Mr. Walter wanted to know if there was any work done on the ESG rating of portfolios.

Mr. Nakatsu replied that several board members have raised that question and that staff have been exploring that and other positive actions as alternatives to divestiture with NEPC. There is a firm, ISS, that oversees voting proxy on boards. The staff is exploring that service as well.

SCERS Operations/Finance

No Report

***The Board of Administration entered into Executive Session at 10:17 a.m.
for 15 minutes to discuss ongoing litigation***

Adjournment

Motion: Upon motion of Lou Walter, seconded by Jean Becker, the Retirement Board of Administration voted to adjourn the meeting. The motion carried unanimously (5-0).

The meeting adjourned at 10:35 a.m.

Susan Coskey, Secretary