



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

Minutes of Thursday, February 12, 2015

Board Members Present: Nick Licata (Chair), Glen Lee, Jean Becker, Lou Walter, Robert Harvey, Jr., Sherri Crawford, Susan Coskey

SCERS Staff Present: Ken Nakatsu, Jeff Davis, Jason Malinowski, Tony Smith, Jill Johnson, Nina Melencio

Others Present: Carlton Seu (Seattle City Attorney's Office), Mike Monaco (Song Mondress Law Firm), Kirk Jones (ARSCE), Tad Anderson (350.org), Alex Lenferna (UW), Lynn Fitz-Hugh (350.org), Bill Roach

Nick Licata, Committee Chair, called the meeting to order at 9:08 a.m.

Public Comments:

Kirk Jones stated he represented the Association of Retired Seattle City Employees (ARSCE). John Masterjohn and Barbara Graham of ARSCE were present at the Investment Committee meeting last month and unable to make it to today's meeting. ARSCE is supportive of today's motion. Mr. Jones stated that he used to be on the retirement board 20 years ago. At that time, there were questions about divesting from South Africa. Part of the board's fiduciary responsibility is to be sure you have all the information of both sides to make a well-informed decision. He did not know if the Board had information from the United Nation's Intergovernmental Panel on Climate Change. He indicated their latest report backed off from the dire climate change predictions.

Tad Anderson is a semi-retired climate scientist who has published at least 60 papers in this area. He stated that today he is very happy because yesterday was the launch of the deep space climate observatory satellite. He said he is a member of 350.org. He thanked the Board for taking this issue so seriously and he learned a lot in the process. He said he did not know about passive and active investments until now. He stated he also did not know about the constraints the Board and staff were under. He is very much appreciative about the positive actions they are taking and he supports the resolution.

Alex Lenferna stated he echoed Mr. Anderson's thanks to the Board. He said he is very encouraged by the positive steps the board is taking which were sensible and laudable.

Lynn Fitz-Hugh said she appreciated the Board's interest and support in investing in alternative energy. She said that joining Ceres would be helpful but will not deal with the carbon bubble and referred to a Bloomberg article. She said that Bruce Herbert and others challenge NEPC's conclusions. She stated that 350 Seattle would continue to be the canary in the coalmine, and pointed out that a dollar invested in Peabody Coal in 2008 is now worth 8 cents. She stated she understood that the board had been legally advised to act as their peer group have and the interpretation of fiduciary duty did not allow them to divest from fossil fuel but the same situation applied with the mortgage crash.

Administrative Consent Agenda

Minutes:

Provided in the Retirement Board packet was the minutes from the January 29, 2015 Retirement Board regular meeting.



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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
Berens,Donald L	1/2/2015	60	19	189.8	Vested	
Burke,Steven J	12/4/2014	62	35	76.65	KC Health	
Byers,Judson T	12/4/2014	66	7	124.1	Vested	Vested
Christiansen,Jeffrey A	12/30/2014	57	32	255.5	Parks Dept	Aquarium Biologist 3
Dyer,Kenneth C	12/11/2014	66	17	288.35	Parks Dept	Safety & Health Supervisor
Hess,Dennis L	12/17/2014	60	15	94.9	PublicUtil	Supervising Civil Engineer
Iverson,Marsha	1/19/2015	66	7	232.5	Vested	Vested
Jack,Steve W	12/25/2014	57	11	211.7	Vested	
Jones,Fredrick D	12/31/2014	69	46	94.9	Parks Dept	Util Laborer
Kiel,Robert A	12/31/2014	55	27	310.25	Parks Dept	
Klosky,Kathryn G	12/6/2014	60	10	120.45	InfoTech	
Krieger,James W	12/5/2014	58	19	189.8	KC Health	
Lafayette,Donna R	12/31/2014	66	25	313.9	City Light	Electrician
Mathisen,Janice K	12/31/2014	63	10	211.7	Parks Dept	Public Ed Program Specialist
Olson,R.D.	12/31/2014	60	14	259.42	Vested	Vested
Rowe,Dean J	12/3/2014	59	21	262.8	City Light	Meter Electrician Crew Chief
Webster,Elaine F	12/15/2014	54	20	0	PublicUtil	

For the month of January 2015: 49 new Members entered the System, 56 terminations, 17 Members retired in the System, 15 Members removed (\$27,458.49), 2 D/E Option, 5 F Option, and 5 over 60% benefit.

- Motion:** Upon motion by Lou Walter, seconded by Jean Becker, the Retirement Board of Administration approved the Administrative Consent Agenda. The motion passed unanimously (7-0).
- Minutes of the January 29, 2015 Board Meeting
 - Ratification of Retirement Payroll, Office Payroll, Other Payments and Withdrawals
 - Ratification of Service Retirements for the month of January 2015

Fossil Fuel Divestiture Report (NEPC)

Mr. Licata stated that he met with Ken Nakatsu and Glen Lee last week to discuss an amendment to the motion adopted at the January 29th Investment Committee. Copies of the amendment were distributed. The motion was moved by Mr. Licata and seconded by Mr. Lee for discussion.

The amendment was as follows:

“The Board directs SCERS staff, through trade associations such as CERES and other pensions to examine an approach to ESG investments, and also consider engaging an independent consultant to assist in this review.”

Mr. Walter had a question about the term “trade associations”. Mr. Nakatsu replied SCERS was particularly interested in joining Ceres, focusing in particular on climate risks and, clearly, we would want to touch base with other pensions as well, such as CalPERS, CalSTERS and others.

Mr. Walter likened it to a consulting type of relationship which opened up the window of advice. Mr. Malinowski agreed and stated that it would be nothing that obligated SCERS. Mr. Walter stated that if that was the consensus, he agreed.

Mr. Lee stated that this is a substantive action, and that SCERS would benefit greatly from other communities' knowledge and interests.

The next kind of concerns will be more than environmental. If we can reach out to our colleagues around the country, the better off we are.

Susan Coskey said that it would be helpful to spell things out. For example, it would be helpful to spell out what Ceres and ESG are.

Ms. Coskey would like the addendum re-worded. The word "through" is not asking anyone to do anything. If as a Board we want the staff to join, the Board needs to say that. Ms. Coskey suggested that "engage" might be more appropriate.

Jean Becker would like to see any resulting next steps laid out in SCERS' work plan and proposed striking a portion of the current motion,

"...treat ESG issues as a strategic goal of SCERS" with "...and incorporate ESG issues into SCERS' work plan."

Mr. Walter stated that this would result in two amendments.

Mr. Licata said that the Board would need to deal first with his motion, then with Ms. Becker's.

Regarding the motion made by Mr. Licata,

1. We would spell out what CERES and ESG, that's strictly editing.
2. Change "through" to "to engage with"

Motion by Mr. Licata passes (7-0)

Ms. Becker then moved her motion to replace "...treat ESG issues as a strategic goal of SCERS" with "...incorporate ESG issues into SCERS' work plan".

Mr. Licata seconds Ms. Becker's motion. The motion passes unanimously (7-0).

The Board of Administration then acted on the amended motion on climate change.

Motion:

Upon motion of Nick Licata, seconded by Robert Harvey, Jr., the Retirement Board of Administration directed that the Seattle City Employees' Retirement System (SCERS) pursue corporate engagement on climate change and other environmental issues, as presented by staff in their January 26, 2015 memorandum; and pursue, as appropriate, investments that are expected to produce investment results consistent with SCERS' fiduciary duty to its members and, if possible, also positively address climate change and other environmental issues. The Board recognizes that these types of investments (e.g. renewable energy, cleantech, and green bonds) are relatively new and limited in availability and will need to be considered prudently as SCERS pursues investments in its asset classes (e.g. real assets, private equity, fixed income). SCERS' staff and advisers will provide quarterly updates regarding Environmental, Social, and Governance (ESG) investment issues and incorporate ESG issues into SCERS' work plan. The Board directs SCERS' staff to engage with trade associations such as Coalition for Environmentally Responsible Economics (CERES) and other pensions to examine an approach to ESG investments, and also to consider engaging an independent consultant to assist in this review. The motion passes unanimously (7-0)



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Fisher Investments Watch List

Jill Johnson stated that she and Mike Malchenko of NEPC visited Fisher Investments on December 12, 2014 where they learned that Ken Fisher planned to retire from the CEO position within the next year. Although Fisher Investments performance was good, it is normal procedure to put an investment plan on "Watch" when there is no succession plan. Ms. Johnson said that staff would re-evaluate Fisher in 6-9 months.

Motion: Upon motion of Nick Licata, seconded by Jean Becker, the Retirement Board of Administration approved the recommendation of staff and NEPC and placed Fisher Investments on Watch status. The motion passed unanimously (7-0).

PIMCO Update

Mr. Malinowski stated that Tony Smith, Don Stracke of NEPC and he had an on-site meeting at PIMCO's headquarters in California in January. The memo provided in the Board packet provided background discussion.

The Investment Committee recommended at the January 29, 2015 meeting to accept a PIMCO fee revision for the portfolio. Mr. Malinowski said that in total, SCERS would expect to pay lower fees.

Mr. Licata asked if this was typical in what we would see in fee arrangements. Mr. Malinowski replied that it was not uncommon. PIMCO has faced many outflows and that they are trying to stabilize their client base. Susan Coskey asked what would be the impact if we did not agree to this fee agreement. Mr. Malinowski replied that we would stay with our current fixed fee agreement which would likely cost about \$100,000 more than the revised, although if PIMCO performed exceptionally well, we could pay a little more.

Motion: Upon motion of Nick Licata, seconded by Robert Harvey, Jr., the Retirement Board of Administration approved the Conditional Temporary Fee Waiver Agreement for the PIMCO Total Return account. The motion passed unanimously (7-0).

Administrative Committee Report:

There was no report.

Investment Committee Report – January 29, 2015

Tony Smith reported on the January 29, 2015 Investment Committee meeting. He stated that there was much conversation on NEPC's Fossil Fuel follow-up report that resulted in the climate change motion approved by the Investment Committee. NEPC also gave an update on Capital Market Expectations for both 5-7 years and 30 years. Expectations are generally lower than they were previously.

Mr. Smith discussed Private Equity Benchmarking. Staff recommended that the private-equity benchmark be changed from the Cambridge US Private Equity Index to a benchmark supplied by the Burgiss Group. NEPC concurred with this change. The rationale for this switch was: (1) Burgiss allowed for customization of benchmark data by vintage year, (2) compared to Cambridge, Burgiss had more expansive coverage of the private-equity universe since the early 2000s, and (3) Burgiss releases its data sooner than Cambridge. The Investment Committee concurred.

Jason Malinowski discussed the Risk Tolerance survey that both the Board and Investment Advisory Committee took. He stated that the board generally seems to be risk adverse. Mr. Walter said that he would like to review risk before the Board completes asset allocation because of the fiduciary responsibility of the Board.

Ms. Coskey stated that she wants to know what the Board's choices are.

Mr. Malinowski stated that at the next Investment Committee NEPC would present a variety of asset class mixes.

Investment Accounting Summary Report – November 30, 2014 and December 31, 2014

Mr. Smith reported on the Investment Summary Reports from November and December 2014. He said that November was a good month in public markets, especially in the United States. There was a little volatility in December, which resulted in modestly negative performance.

SCERS was at \$2.3B at the end of 2014 and the funding ratio was a little down at 67.7%. When combined, SCERS outperformed its policy index over November and December.

For the year, SCERS' investment return was up a little under 6%. We will get the official word in two weeks. To put us in perspective, CalPERS for 2014 was up 6%.

Mr. Smith said in November SCERS moved about \$50M out of public equity to fund the Adams Street private equity account.

In December 2014 we transferred \$22M Rhumblin Advisors to Blackrock Russell 1000.

Also in December, Adams Street, called \$2.3M in capital. SCERS has \$55M in commitments at this time.

Mr. Smith said SCERS funded the entire \$50M commitment to Heitman in December by selling out of the JP Morgan REIT account.

Finally, net distributions from private equity were \$900,000.

January markets were down a little bit (50-60 basis points). February could be up 100 basis points thus far. We are pretty close to being flat for 2015.

Executive Director Report and SCERS Work Plan

Ken Nakatsu reminded the Board that there was an election this year for Sherri Crawford's board seat.

Mr. Nakatsu updated the Board on the SCERS' Work Plan. Under Item #4 Customer Service Improvements, Phase III will include joint efforts to improve customer service with the Seattle Department of Human Resources.

The Pension Administration System (PAS) was changed from Phase III to Phase IV, given that proposal responses are due on Tuesday, February 17, 2015.

SCERS Operations/Finance and SCERS Dashboard

Jeff Davis reviewed the SCERS Dashboard. He stated that the Goal #1, Customer Service, revolved around retirement estimates, the backlog and turnaround times. The backlog has shrunk dramatically and the trend continues. Mr. Davis stated that last November the retirement estimate backlog was at 290 estimates and we are now at the 150-160 range. Tim Morrison and the Retirement Specialists are doing a great job. Although we are not where we want to be, we are making visible progress.

Goal #2 involves selection of a Pension Administration System. SCERS has a good team in place to assess which vendor can meet our needs. Mr. Lee asked if SCERS had actively engaged with the Department of Information Technology (DoIT) and their Director Mike Mattmiller. Mr. Davis responded "yes" and that he has been meeting with Mr. Mattmiller and others within the City. Mr. Davis stated DoIT is helping SCERS evaluate the RFP.

Mr. Davis went on to Goal #3 which is the funding ratio which is currently at 67.7%.

Goal #4 reflects the department's working environment which continues to improve as we made process improvements and secure more tools.



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The Board of Administration entered into Executive Session at 10:25 a.m. for 10 minutes to discuss a temporary disability retirement application. Executive session was extended to 10:50 a.m. and the Board of Administration re-entered into regular session at 10:50 a.m.

Application – Disability Retirement Application – Tomasi Vanila

Motion: Upon motion of Lou Walter, seconded by Robert Harvey, Jr., the Retirement Board of Administration approved the temporary disability retirement for Tomasi Vanila. The motion passed unanimously (7-0).

The Board of Administration entered into Executive Session at 10:50 a.m. for 10 minutes to discuss a personnel matter. Executive session was extended to 11:15 a.m.

Executive Session was closed and the Board re-entered into regular session at 11:15 a.m.

Adjournment

Motion: Upon motion of Glen Lee, seconded by Robert Harvey, Jr., the Retirement Board of Administration voted to adjourn the meeting. The motion passed unanimously (7-0).

The meeting adjourned at 11:15 a.m.

Susan Coskey, Secretary