



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

Minutes of Thursday, April 9, 2015

Board Members Present: Robert Harvey, Jr. (Chair), Glen Lee (arrived at 9:05 a.m.), Jean Becker, Sherri Crawford, Susan Coskey (via phone)

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

Others Present: Carlton Seu (Seattle City Attorney's Office), Mike Monaco (Song Mondress Law Firm), Tom Kirn (FAS), George Emerson (FAS)

Robert Harvey, Jr., called the meeting to order at 9:00 a.m.

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

There was no public comment.

Administrative Consent Agenda

Ken Nakatsu stated that the Retirement Board packet included a revision to the December 11, 2014 board minutes. Approved actions by the Board on the extension of the Fisher contract and the incumbency certificate for the Bank of New York were not included in the minutes. Both these motions had been approved at the December 11, 2014 Board of Administration meeting.

Minutes:

Provided in the Retirement Board packet was the minutes from the March 12, 2015 and revised minutes from the December 11, 2014 Retirement Board regular meeting.

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

Service	\$12,018,867.96
Beneficiary	928,742.25
Disability	<u>76,782.59</u>
Pension Payroll – PPE March 2015	\$13,024,392.80
Office Payroll – PPE March 10 and March 24, 2015	\$ 163,832.34
Vouchers Processed – March 2015	
• Expert and Consultant Services	\$ 72,586.63
• Investment Management Fees	000.00
• Interdepartmental Charges	\$ 112,549.46
• Miscellaneous	\$ 47,989.40

Immediate Withdrawals of Contributions for the month of March 2015:

MEMBER	Department Name	Position
Williams, Lenette Renee	FAS	Cust Svr Rep, Sr
Sawyer, Secora Lu	SPU	Mgmt System Analyst
MacInnis, Kevin B	SPU	Laborer
Munoz, Cesar	Parks	Util Laborer
Pope, Kathy	Muni Court	Court Clerk

Cole, Andrea Lynn	SPU	Strat Advisor I
Kepu, Valerie Vilma	Sea Ctr	Laborer
Fjetland, Sonja Marie	HSD	Human Svcs Prgm Supv, Sr
Dietzel, Stacey Ann	FAS	Cust Svr Rep, Sr
Huang, Xiao Qing	Neighborhood	Acct Tech II
Walsh, Jeremiah John	FAS	Printing Equip Op

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

Withdrawals for a total of: \$674,283.81

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
Blume,Lester C	2/1/2015	62	8	62.05	Vested	
Campbell,Judith W	2/12/2015	65	16	175.19	Police	ID Data Specialist
Denzel,Mary F	2/11/2015	65	31	83.95	Cty Audit	Strategic Advisor--City Auditor
Freeman,Fawn M	2/3/2015	54	22	69.35	SDOT	Asst Civil Engineer
Hemmelgarn,David C	1/29/2015	64	11	116.8	Vested	Vested
Holladay-Kruger,Carol A	2/9/2015	64	6	18.25	Vested	
Korkowski Komedal,Ruth	2/5/2015	65	18	211.7	Library	Librarian
Little,Rand M	2/11/2015	64	22	189.8	PublicUtil	Strategic Advisor 2
MacInnis,Kevin B	2/4/2015	55	24	284.7	PublicUtil	Laborer
Mears,Michael L	2/11/2015	65	17	215.35	FAS	Buyer, Sr.
Melland,Linda L	2/22/2015	64	2	143.52	Vested	Vested
Mellor,Thomas O	2/25/2015	65	43	109.5	PublicUtil	Strategic Advisor 2,
Mendelson,Thomas W	2/3/2015	67	40	313.13	Library	Librarian
Parks,Kathleen A(Ex)	2/11/2015	60	n/a	n/a	n/a	n/a
Parks,Thomas B	2/11/2015	60	35	318.86	City Light	
Pope,Kathy L	1/31/2015	64	7	25.55	Muni Court	Court Clerk
Rangel,Elmira L	2/18/2015	70	32	77.35	SDOT	Asst Civil Engineering Spec III
Rottinghaus,Robert G	2/14/2015	64	22	113.15	FAS	Auto Maint CC
Santos,Adolfo A	2/11/2015	64	36	313.97	FAS	
Thurmond,Michele	2/13/2015	53	27	242.62	Parks Dept	
Vande Griend,Kimberley A	2/18/2015	62	36	0	City Light	Engineering Aide
Walath Simpson,Lorna	1/22/2015	54			SDHR	Admin Spec II
Watts,Neil R	3/1/2015	60	7	208.5	Vested	Vested
West,Donna L	2/3/2015	62	38	284.7	Police	Latent Print Superv
White,Garel W	3/5/2015	63	16	189.8	Vested	Vested

For the month of March 2015: 26 new Members entered the System, 32 terminations, 24 Members retired in the System, 18 Members removed (\$31,772.96), 5 D/E Option, 4 F Option, and 4 over 60% benefit.



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Motion: Upon motion by Jean Becker, seconded by Susan Coskey, the Board of Administration approved the Administrative Consent Agenda. The motion passed unanimously (4-0).

- Minutes of the March 12, 2015 and revised minutes of the December 11, 2014 Board Meeting.
- Ratification of Retirement Payroll, Office Payroll, Other Payments and Withdrawals
- Ratification of Service Retirements for the month of

Administrative Committee Report:

Jeff Davis reported that members of the IT staff provided a demonstration of the new Board of Administration SharePoint site for Administrative Committee members at its meeting held on March 26, 2015.

Staff is working to populate the site. At a future Administrative Committee or Board of Administration meeting, an update will be given on what is available on the site and Board members will be provided information on accessing the SharePoint site.

Investment Committee Report

Jason Malinowski reported on the March 26, 2015 Investment Committee meeting.

Don Stracke and Mark Cintolo of NEPC reported on the Asset Liability Study. The Investment Committee was asked to make a recommendation to the Board of Administration between the current target and alternate mix. NEPC expects that over the next 10 years there will be an increase in the funding ratio from 66 to 70%. This improvement is driven by amortizing the unfunded liability and recognizing some prior years' investment gains. Staff and NEPC recommended that the alternative mix be brought forth for approval. After NEPC's presentation and further discussion, the Investment Committee unanimously approved to recommend to the Board of Administration to adopt the alternate mix that consists of 48% public equity, 9% private equity, 18% broad fixed income, 5% credit fixed income, 12% real estate, 3% infrastructure and 5% diversifying strategies.

Motion: Upon motion of Glen Lee, seconded by Sherri Crawford, the Board of Administration adopted the alternate mix, as described in NEPC's presentation at the March 26, 2015 Investment Committee meeting, as the asset allocation policy to be effective on July 1, 2015. The motion passed unanimously (5-0).

Susan Coskey asked about the Asset Liability Study's finding that performance is not expected to meet the assumed return. Mr. Malinowski stated that NEPC provides return expectations for a 5-7 year time frame and a 30-year time frame. NEPC's Asset Liability Study is based primarily on their 5-7 year return expectations. Over a 30-year time frame that is consistent with actuarial practices, the alternate mix is expected to meet the assumed return. While we are in a low return environment right now, we expect this to normalize over a longer period of time.

At the March 26, 2015 Investment Committee meeting, Jill Johnson reported on a recommendation to transfer from SCERS's existing Research Affiliates' equity product that invests in non-US developed markets (Research Affiliates Equity International, L.P.) to a product that invests globally across US, non-US developed and emerging markets (Research Affiliates Global All Country, L.P.)

Mr. Malinowski stated that because Research Affiliates is outsourcing their administrative functions to PIMCO, SCERS's needs to make this change in May, before the transaction closes, to maintain the grandfathered fees. The Investment Committee voted to authorize the change at its March 26, 2015 meeting.

Susan Coskey asked if staff was forced to rush its assessment to meet the deadline. Mr. Malinowski stated that SCERS and Research Affiliates have been in communication over this change for the last 5-6 months.

Motion: Upon motion of Jean Becker, seconded by Glen Lee, the Board of Administration approved the Investment Committee's authorization of staff to transfer Seattle City Employees' Retirement System's investment in Research Affiliates Equity International, L.P. to Research Affiliates Global All Country, L.P. and make other associated transactions to maintain the geographic composition of the asset allocation policy. The motion passed unanimously (5-0).

At the March Investment Committee meeting, Tony Smith gave an update on staff's analysis of unconstrained bonds as a potential investment strategy.

Mr. Malinowski stated that Tony Smith and George Emerson drove the analysis of unconstrained bonds. He stated that they had reviewed 14 different managers, five of which were on NEPC's focused placement list. He outlined various reasons that staff recommended not moving forward with Unconstrained Bonds which included its more restrictive opportunity set as compared to other diversifying strategies, greater reliance upon timing relatively efficient global interest rate and currency markets and performance is not meeting expectations.

Investment Accounting Summary Report – February 28, 2015

Mr. Malinowski stated that at the end of February 2015 the fund was just under \$2.4B. In March, we expect it to be modestly negative down 50 basis points. April month-to-date performance appears to be modestly positive.

Robert Harvey, Jr. stated that we consider the portfolio on a long-term basis, but we have a requirement to pay benefits on a monthly basis. It is important to keep that in mind to ensure decisions to increase return, do not take on excessive risk. The ultimate goal is to get to the point that contributions are stabilized.

Executive Director Report

Ken Nakatsu said that the trustee election candidate filing period for Ms. Crawford's position opened this morning at 8:00 a.m. and will close at 5:00 p.m. on April 23, 2015. Candidate statements and a photo must also be submitted by 5:00 p.m. on April 23, 2015.

SCERS staff met on March 25, 2015 with staff from the Tacoma Employees' Retirement System (TERS). The meeting was productive for both agencies.

Mr. Nakatsu stated that we are expecting to have an Environmental, Social and Governance (ESG) written report for the June 2015 Board meeting. As a result of the motion in February, the report will be quarterly beginning with the June Board Meeting.

Mr. Malinowski will be attending the Ceres/Investor Network on Climate Risk (INCR) Conference from May 13-15, 2015. His attendance at this conference will be helpful to gather information for the ESG written report.

Mr. Nakatsu said that he and four board members are attending the National Conference on Public Employee Retirement Systems (NCPERS) conference in New Orleans.

Jean Becker said she understood that the city was considering a SCERS2 plan and asked Ms. Coskey for an update.

Ms. Coskey replied that the information could not be shared at this time due to negotiations with the labor unions.



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SCERS Operations/Finance

Jeff Davis reported that SCERS has been going through the process to obtain a Pension Administration System. Five firms responded to the RFP and those five firms were narrowed to three this week. During the month of May, staff will be conducting reference checks, due diligence and site visits. The three firms that have been selected will be on-site for 1 ½ days of scripted, oral presentations. They will also meet with our teams. After the oral presentations, staff will narrow it down to one presumed successful vendor. The presumed successful vendor may be presented at either a Special Administrative Committee meeting or a full Board meeting, depending on the timing.

There was a discussion on whether the system will be hosted or not. Mr. Davis stated that if the system were on-site, SCERS would have support from the City. Staff from the Department of Information Technology (DoIT) and Finance and Administrative Services (FAS) helped write and evaluate the RFP.

Mr. Harvey asked about the security of the system and who would be responsible. Mr. Davis replied that the vendor is responsible for the system's security. On the RFP, the vendors were required to show what their disaster recovery plan would be. Mr. Nakatsu stated that DoIT's security staff has also been involved in the RFP evaluation.

SCERS Work Plan

Mr. Nakatsu stated that there were a couple of changes to the work plan.

There is ongoing work with Seattle Department of Human Resources (SDHR) on coordination between SCERS and the SDHR Deferred Compensation Program so the customer service timeline has been extended.

The timeline for the investment policy was also extended due to the adoption of the new asset allocation mix. Mr. Nakatsu said that Mr. Malinowski has a draft of the investment policy for review. He is in the midst of soliciting comments from the Investment Advisory Committee and NEPC staff.

We hope to have the draft Investment Policy for the April Investment Committee meeting.

The last change is that unconstrained bonds has been taken off the work plan.

SCERS Dashboard

Mr. Davis reported on this month's dashboard. He stated that there has been a lot of progress for the retirement estimates. There are currently 100 estimates in queue and the turnaround time has decreased to less than four (4) weeks. For previous years, members were told the turnaround time was 6-8 weeks and, at times, that was exceeded. SCERS target for turnaround time is now four (4) weeks.

The last page of the dashboard has year-end 2014 information, except for the retiree data graph. Membership counts and operating revenues are all based on year-end figures for 2014.

Budget and expenditures are through March 2015. Mr. Davis said that there is no big trend to point out in the graph.

Mr. Nakatsu stated that we expect to have a budget discussion at the next board meeting.

Mr. Davis said that we have built in capacity for increased investment manager fees and the PAS is already included.

Mr. Harvey asked how much was budgeted for PAS and how payments are made.

Mr. Davis stated that there is \$6M in the 2015 budget and approximately \$4M in the 2016 budget. Depending on which vendor is selected and how aggressive they are upfront, some of the 2015 budget may have to carryover. They

will be paid similar to an invoice. Payment is usually made based on achieving milestones. They accomplish a task, and we pay. Or it can be done in hours.

Executive Session

The Board of Administration entered into Executive Session at 9:37 a.m. for 15 minutes to discuss a personnel matter.

Executive Session was closed and the Board re-entered into regular session at 10:03 a.m.

Adjournment

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

The meeting adjourned at 10:05 a.m..

Susan Coskey, Secretary