



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

Minutes of Thursday, June 11, 2015

Board Members Present: Nick Licata (Chair), Glen Lee, Jean Becker (9:05 a.m.), Lou Walter, Robert Harvey, Jr. (9:30 a.m.), Sherri Crawford, Susan Coskey

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

Others Present: Jeff Slayton (Seattle City Attorney's Office), Mike Monaco (Song Mondress Law Firm), George Emerson (FAS), Valerie Schloredt, Lynn Fitz-Hugh, Bruce Herbert, Tad Anderson, Bill Roach, Erik Sund (FAS), Alex Lenferna, Crystal Roncek (SDHR), Brittany Smith (CliftonLarsonAllen)

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

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

There was public comment.

Public Comment

Lynn Fitz-Hugh of 350.org stated that she was happy to be here before the board and is aware that they hold a concern for climate change. She stated that she would like the Board to divest all direct holdings of tar sand.

Alex Lenferna said that he was impressed by Jason Malinowski's ESG report. He stated that an increasing number of universities are moving to divestiture and that the University of Washington divested from coal. Times are changing and he is looking forward to seeing SCERS also change.

Valerie Schloredt stated that tar sands are a high cost project that is not economically viable. Ms. Schloredt said that SCERS has a fiduciary responsibility to get out.

Bruce Hebert is in favor of following San Francisco's lead and being an early adopter of being fossil free. He stated that Seattle would profit from fossil free investing and still be fiduciary responsible.

Tad Anderson urged the board to divest from coal companies because coal is the dirtiest form of fossil fuel in terms of carbon-dioxide emissions and also in terms of the pollution it creates.

Bill Roach stated that he is a SCERS member who is concerned about his financial future. He is also a grandfather concerned about sustainable future. He stated that the ESG 2nd quarter update was promising and asked that SCERS make it a top priority to select managers and to act prudently.

Mr. Licata closed public testimony asked Ken Nakatsu to give a brief overview of the ESG report.

Mr. Nakatsu reported that staff would cover in greater detail the ESG report later. We will also talk about our activities with CERES. Jason Malinowski attended the CERES conference in San Francisco. Last Friday, SCERS investment staff met with Kirsten Spalding who manages the San Francisco CERES office. She had helpful advice. The ESG update listed that we had 16 contacts, but that number has increased since the report was written

Yesterday, SCERS received an invitation to attend the White House Clean Energy Summit next Tuesday, which was arranged by NEPC. Mr. Nakatsu stated that he would represent SCERS at the Summit.

Administrative Consent Agenda

Minutes:

Provided in the Retirement Board packet was the minutes from the May 14, 2015 Retirement Board regular meeting.

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

Service	\$12,149,559.78
Beneficiary	933,604.23
Disability	<u>75,704.38</u>
Pension Payroll – PPE May 2015	\$13,158,868.39
Office Payroll – PPE May 5 and May 19, 2015	\$ 170,622.97
Vouchers Processed – May 2015	
• Expert and Consultant Services	\$ 99,821.67
• Investment Management Fees	462,575.50
• Interdepartmental Charges	112,915.10
• Miscellaneous	33,852.16

Immediate Withdrawals of Contributions for the month of May 2015:

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

MEMBER	Department Name	Position
Allyn, Kenneth F	DPD	Electrical Inspector, Sr
Anderson, Judith K	SPU	Drainage&Wstwtr Worker
Asplund, Carol Lynn	DPD	Comm Service Rep
Barmore, Tyler Anthony	City Light	HVAC Tech
Beatty IV, Francis Charles	City Light	Line Worker
Berndt, Shawn J	Parks	Golf Course Groudkeeper
Birmann-Hamrel, Henriette	Sea Ctr	Usher
Bodovinitz, Steven J	Sea Ctr	Usher
Brown, Terrence J	FAS	Parking Meter Collector
Buntin, Harvey	DPD	Manager 2
Burwell, Jared R	Parks	Inst Maint Worker
Castillo, Jesus A	SPU	Water Pipe Worker
Crane, Pamela Margaret	Sea Ctr	Usher
Creighton, Carolyn T	HSD	Admin Spec I
De Oro, Carlos Alberto	HSD	Admin Support Asst
Del Rio, Edgar	City Light	Civil Engr, Asst I
Desmond, Donald A	SPU	Water Pipe Worker
Efange, Kayla Martinique	HSD	Personnel Spec, Sr
Enciso, Melissa Elaine	SDOT	Admin Spec II



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Germano, Philip	Muni Court	IT Tech B
Gilliam, Jesse Malone	Legislative	Legislative Asst
Han, Margaret	Parks	Laborer
Harvey, Russell William	HSD	Fin Anlyst, Sr
Hembree, Kenneth Brian	SDOT	Drainage&Wstwtr Worker
Herndon, Amy	Arts & Cult	Admin Staff Asst
Holmberg, Aaron James	SPU	Water Pipe Worker
Jackson, Jelani Leif	Parks	Rec Attendant
Jones, Diane L	Parks	Aquatic Control Coord
Koski, Allan W	City Light	Elecl Engr Asst I
Mathur, Tej S	City Light	Mech Egrn Sr
Morrow, Sean P	SPU	Labor Relation Coord
Orsi, Catherine A	DPD	Pln Development Spec, Sr
Pettengill, Diane	FAS	Graphic Arts Designer
Puloka, Joshua Daniel	Parks	Laborer
Reese, Antoinette	HSD	Program Intake Rep
Sammons, Sylvia Ann	City Light	Proj Fund & Agmt Coord
Sandidge, Michael O	City Light	Executive 2
Schirato, Leeanne Star	Legislative	Exec Asst
Scott, Joanne	HSD	Grants & Contract Spec
Spoor, Paul William	Parks	Lifeguard
Tomko, Linda Marie	Muni Court	Admin Spec I
Triplett, David M	Sea Ctr	Security Officer
Tucker, David	SPU	Civil Engr, Spec Assoc
Yee, Darryl C	Parks	Rec Attendant
Zubenkova, Darja	HSD	Counselor

Withdrawals for a total of: \$2,418,039.22

Retiree	RetiredDt	Age	Years	Days	DeptName	Position
Alberts, Colette L	05/06/15	59	31	91.47	Police	Manager2, Fin, Bud, & Actg
Bailey, Linda D	05/06/15	66	23	257.84	Police	Personnel Spec, Asst
Beckett, Jani A	05/02/15	60	30	286.34	City Light	Elecl Constr&Maint Supv-BU
Brittenham, Rosellen M	05/06/15	62	30	138.65	Parks Dept	Gardener, Sr
Buchanan, Andrea L	05/06/15	69	20	47.54	PublicUtil	Admin Spec III-BU
Chan, Nina L	05/06/15	72	31	204.28	Parks Dept	Info Technol Prof B
Chaussee, Michael W	04/11/15	63	10	213.96	Parks Dept	Tree Trimmer
Gorham, Patricia L	05/06/15	64	25	159.77	PublicUtil	Mgmt Sys Anlyst, Sr
GREGG, BARBARA	04/30/15	65	9	51.04	Vested	
Hansen, Nadine Ann	04/18/15	62	30	3.77	PublicUtil	Trng&Ed Coord, Sr
Harvey, Elias W	05/06/15	59	20	255.08	SDOT	Constr&Maint Equip Op
Hayashi, Henry K	05/05/15	65	42	82.86	City Light	Elctn-Con-(OI)

Hicks,Cindie L	05/06/15	59	20	6.97	City Light	Admin Staff Asst
Hoffman,Audrey E	05/06/15	58	11	172.4	PublicUtil	Util Act Rep II
Jacobson,Jennyfer Shen	05/01/15	66	24	122.4	PublicUtil	Civil Engr,Assoc
Jepson,Janet M	05/06/15	64	41	299.38	Muni Court	Actg Tech II-MC
JUNTILA, STEPHEN W	05/04/15	65	8	148.7	Vested	
Kibbee,Claudia S.	05/06/15	53	22	315.53	Police	Pol Comms Dispatcher II
Laban,Harry	04/24/15	70	30	179.51	FIRE	StratAdvsr1,Fin,Bud,&Actg
Livesay,Marrell Dean	05/06/15	63	22	51.65	Parks Dept	Envrnmntl Anlyst,Sr
Lock,Stanley B	05/02/15	59	31	262.21	NeighbDept	Neighb District Coord
McCain,Robin P	05/01/15	62	18	258.89	Vested	
McGrew,Karen L	05/06/15	62	25	104.88	PublicUtil	Act Exec
McMahon,Michael Slayton	04/25/15	72	11	349.15	Vested	
Palu,Penisimani	05/06/15	65	10	25.39	Parks Dept	Laborer
Pflug,David E	05/06/15	60	26	28.4	City Light	StratAdvsr2,Utills-BU
Ramos,Timothy A	05/13/15	58	16	97.89	Vested	
Ripley,Steve S	04/22/15	57	15	244.73	InfoTech	Info Technol Prof C
Roberts,Sukhi	05/06/15	63	30	126.03	Human Svcs	Actg Tech II-BU
Roda,Anne P	05/06/15	70	12	20.43	Parks Dept	Gardener
Saari,Elwood A	04/19/15	65	42	35.38	City Light	Elctn-Con
Trefethen,Joanna M	04/28/15	60	25	9.83	Library	Librn
Wilson,William Dexter	05/06/15	64	30	248.93	Muni Court	Admin Support Supv-MC
Wong,Perry Munyue	05/06/15	57	30	147.15	DPD	Actg Tech II-BU

For the month of May 2015: 35 new Members entered the System, 28 terminations, 34 Members retired in the System, 8 Members removed (\$7,805.74), 1 D/E Option, 3 F Option, and 3 over 60% benefit.

Motion: Upon motion by Nick Licata, seconded by Jean Becker, the Board of Administration approved the Administrative Consent Agenda. The motion passed unanimously (6-0).

- Minutes of the May 14, 2015 Board Meeting.
- Ratification of Retirement Payroll, Office Payroll, Other Payments and Withdrawals.
- Ratification of Service Retirements for the month of May 2015.

Executive Session

The Board of Administration entered into Executive Session at 9:10 a.m. for approximately 45 minutes to discuss a disability retirement application, a personnel matter, and a labor issue.

Executive Session was closed and the Board re-entered regular session at 10:07 a.m.

Mike Monaco stated it was the desire of the Board to extend the contract of the Interim Executive Director, Ken Nakatsu, for 12 months with the terms of the contract to be defined.

Motion: Upon motion by Susan Coskey, seconded by Jean Becker, the Board of Administration approved the extension of Kenneth J. Nakatsu's contract as Interim Executive Director of the Seattle City Employee's Retirement System through June 30, 2016. The motion passed unanimously (7-0).

Susan Coskey stated that the Board would also like to retain a search firm to begin the process for hiring a replacement Executive Director.



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Motion: Upon motion by Lou Walter, seconded by Robert Harvey, Jr., the Board of Administration approved the retention of a search firm to hire the Executive Director of the Seattle City Employee's Retirement System. The motion passed unanimously (7-0).

10:09 a.m. – Susan Coskey left the meeting.

The Board entered into Executive Session at 10:09 a.m. for 25 minutes to discuss a disability retirement application and labor issues.

The Board re-entered into regular session at 10:41 a.m.

Motion: Upon motion by Lou Walter, seconded by Robert Harvey, Jr., the Board of Administration approved the retirement disability application of Mr. Steve Christensen. The motion passed unanimously (6-0).

Resolution and Incumbency Certificate – Revised June 11, 2015

Ken Nakatsu stated the Bank of New York who is SCERS's custodian requires this resolution. The resolution is re-validated every six months and it is a technical formality.

Motion: Upon motion by Nick Licata, seconded by Jean Becker, the Board of Administration approved the revised Board Resolution and Certificate of Incumbency effective June 11, 2015. The motion passed unanimously (6-0).

Report Audit – CliftonLarsonAllen

Brittany Smith from CliftonLarsonAllen presented a draft management letter to the Board and stated that they are not quite ready to present the audit report, although she can present information to the Board at today's meeting.

Although there is a motion on the agenda, the report from CliftonLarsonAllen will not be finalized until July 2015.

Ms. Smith noted the following significant deficiency (which is less severe than a material weakness):

- General ledger accounts were not reconciled on a monthly basis.

She also noted the following other matters, which she stated, were opportunities to strengthen SCERS's internal control and improve the efficiency of operations:

- Certain member files could not be located either onsite or in storage due to storage issues.
- Lack of controls around the reconciliation and review for accuracy of payroll information.
- No field for beneficiary date of death in the current system, which would make it difficult to track if the beneficiary died.
- Need a formal structured collection process for overpayment of benefits.
- Strengthen controls surrounding citywide cash.

Valuation Study

Jeff Davis reported on the Valuation Study performed by Milliman. The actuarial valuation is as of January 1, 2015.

The summary of findings is as follows:

	January 1, 2015	January 1, 2014
Total Actuarial Contribution Rate	25.26%	25.76%
Funding Ratio	66.0%	64.2%
Active Members	8,746	8,603
Retired Members	6,019	5,880
Average Benefit	\$2,154	2,086

Mr. Davis stated that the drop in the actuarial contribution rate from 25.76% to 25.26% was primarily due to the smoothing method in recognizing investment gains.

11:02 a.m. – Sherri Crawford left the meeting.

11:04 a.m. – Jeff Slayton left the meeting

There were no changes to the morbidity rate.

Motion: Upon motion by Lou Walter, seconded by Glen Lee, the Board of Administration accepted the January 1, 2014 Actuarial Valuation Report as presented by Milliman. The motion passed unanimously (5-0).

Investment Committee Report

Tony Smith reported on the May 28, 2015 Investment Committee Meeting. He stated that there were four recommendations from the Investment Committee, which are included in the Board packet.

Investment Policy and Associated Policy

Motion: Upon motion of Nick Licata, seconded by Robert Harvey, Jr., the Board of Administration accepted the Investment Committee's recommendation to adopt the Investment Policy and Conflicts of Interest for Managers and Placement Agents Policy as presented by Staff to be effective July 1, 2015. The motion passed unanimously (5-0).

Manager Selection Process

Motion: Upon motion of Glen Lee, seconded by Jean Becker, the Board of Administration accepted the Investment Committee's recommendation to adopt the Manager Selection Process as recommended by Staff. The motion passed unanimously (5-0).

PIMCO Update

Motion: Upon motion of Jean Becker, seconded by Robert Harvey, Jr., the Board of Administration accepted the Investment Committee's recommendation to terminate the global inflation-linked securities mandate with PIMCO as is consistent with the recently adopted Strategic Asset Allocation. The motion passed unanimously (5-0).



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Credit Fixed Income Interim Plan

Motion: Upon motion of Glen Lee, seconded by Lou Walter, the Board of Administration accepted the Investment Committee's recommendation to adopt the interim plan for credit fixed income as presented by Staff. The motion passed unanimously (5-0).

Mr. Smith stated that the funding ratio went up about 90 basis points as indicated in the April 30, 2015 Investment Summary. Actual assets are now at \$2.4B.

Investment Advisory Committee (IAC) members attended the May Investment Committee meeting. Alan Hess, a long-time IAC member, stated at the end of the meeting that he felt comfortable for the first time in 25 years leaving a meeting. Mr. Hess told the group that there was overwhelming improvement and that they were doing a good job.

Executive Director Report

Mr. Nakatsu stated that the 2015 Trustee Election for Sherri Crawford's seat has been completed. VoteNet Solutions, an independent firm based in Washington D.C., was retained to run the election. 10.5% of the membership voted and 69% votes were for Ms. Crawford.

2015 Trustee Election (Active Member Seat)

Motion: Upon motion of Lou Walter, seconded by Jean Becker, the Board of Administration ratified the certification of election results as provided by VoteNet Solutions for the 2015 Board of Administration election for an active member seat (3-year term July 1, 2015 – June 30, 2018). The motion passed unanimously (5-0).

ESG Quarterly Update

Jason Malinowski reported on the ESG (Environmental, Social and Governance) Quarterly Update.

He stated that many of the areas in the update were touched on during the public comments at the beginning of the board meeting. The California State Senate passed a bill last week that required CalPERS and CalSTRS to divest from coal companies. The bill also indemnifies their boards. It is unclear what boards will do since it is not mandated. The language says it is required, but it also says that it is consistent with the board's fiduciary responsibility.

Mr. Licata asked if the San Francisco Retirement System board voted to divest from fossil fuel or if the council did. Mr. Malinowski responded that it was their board.

SCERS is embedding ESG elements in making investment decisions as one of its positive actions. Mr. Malinowski stated that ESG was embedded in the investment process as well in the RFP process.

The University of Washington (UW) chose to divest from companies whose principal business is the mining of coal for energy purposes. They did not move to divest from fossil fuel because of the impact would be too material.

11:21 am – Glen Lee left the meeting

Mr. Malinowski stated that based on his conversations with UW staff, their decision was based on past performance

BlackRock and State Street, who are very prominent in passive investment, launched ETFs that track low carbon target index. The index also looks at global equity markets, low fossil fuel and low carbon emissions. The United Nations provided the seed capital.

Mr. Malinowski discussed some takeaways from the CERES annual conference that he attended in San Francisco which was also attended by companies who are looking at sustainability in their companies:

- Renewable energy generation is growing rapidly as equipment costs have substantially declined
- Fossil fuels are not a uniform category
- Coal is not economic versus gas
- Institutional investors have had recent successes with corporate engagement
- US-based investment consultants are not engaged on ESG matters (there are limited exceptions)
- Water risk

Staff has had a lot of activity on corporate engagement including joining INCR, which is a CERES sponsored network of 110 institutional investors. SCERES signed a letter to the SEC, which represented more than \$13T in assets calling for greater prioritization on the disclosure of climate risks of energy companies.

SCERES has engaged with Institutional Shareholder Services (ISS) to evaluate proxy-voting records of our managers. We want to assess the votes for co-mingled managers and compare that to our investment policy.

ISS determine best practices for shareholder voting and they have a sustainability policy. They will provide the analysis for us.

Mr. Walter stated that with “ESG” (Environmental, Social, and Governance), the Board has spent a lot of time on the “E”, but needs to also spend time on the “S” and the “G”.

Mr. Licata responded that Mr. Walter made a good point.

Mr. Malinowski said that staff is integrating climate change to the investment process by asking managers how they think about ESG. An ESG section is included in the RFP process.

The last piece is on sustainability investments. We need to be aware that the response can be a tiebreaker.

Mr. Malinowski briefly reviewed the appendix.

Mr. Licata stated that Mr. Malinowski gave an excellent review.

SCERS' Work Plan and Dashboard

Mr. Nakatsu stated that both are in the Board packet. The staff is deep in the selection process for the Pension Administration System (PAS).

Mr. Davis stated that the staff and others just finished two weeks of vendor demonstrations. We hope to come to the July meeting with the selected vendor.

Mr. Nakatsu said that, operationally, the selection of the PAS is the biggest thing the Board has had since the audit. It will be an immense effort to negotiate the contract and get the vendor on board.

Mr. Harvey asked how the vendor would be paid. Mr. Davis replied that there are investments over the course of the year, which is spread over a 10-year period.

Ms. Becker requested that the work plan be rolled over to next year.



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Adjournment

Motion: Upon motion of Lou Walter, seconded by Nick Licata, the Board of Administration voted to adjourn the meeting. The motion passed unanimously (5-0).

The meeting adjourned at 11:56 a.m.

Susan Coskey, Secretary