



Seattle City Employees' Retirement System
Board of Administration Meeting
600 4th Avenue, Room L280, City Hall Boards and Commissions Room
(206) 386-1293

Minutes of Thursday, September 10, 2015

Board Members Present: Nick Licata (Chair), Lou Walter (via phone at 9:18 a.m.), Jean Becker (via phone), Sherri Crawford, Susan Coskey

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

Others Present: Carlton Seu (Seattle City Attorney's Office), Mike Monaco (Song Mondress Law Firm), George Emerson (FAS), John Masterjohn (ARSCE), Alex Bernhardt (Mercer), Tad Anderson, Valerie Costa, Alec Connon, Karen Moskowitz, Andrew Kidde, Lynn Fitz-Hugh

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

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

There was public comment.

Tad Anderson stated he was an atmospheric scientist and a volunteer for 350 Seattle. He thanked the Board for their consideration. He had two specific requests from 350 Seattle:

1. That the board move a limited portion of assets to fossil-fuel free funds; and
2. The Board divest from direct holdings in thermal coal.

Mr. Anderson also thanked the SCERS staff for their most recent ESG report. He stated it was packed with important content and was an excellent review, most notably including a study from the Economist.

Valerie Costa said she is a Seattle resident and a small business owner. She grew up in Fall River, Massachusetts which is a city with two coal plants. Ms. Costa said half her family has asthma. She stated that one of the power plants has closed and the other is closing in 2017. Coal is not profitable anymore due to the low price of natural gas. Ms. Costa urged the Board to divest from coal and tar sands and was grateful to have the opportunity to share her story with the Board.

Valerie Schloredt stated she is pleased to be back with 350 Seattle. She said another sign that now is the time to move away from fossil fuels is the 50% fall in oil prices. Shell is taking an immense operational risk to drill in the Arctic. Ms. Schloredt stated that their strategy is unprofitable.

Alec Connon stated he is a Seattle teacher. In a little more than a year, the oil crash has wiped out \$1.3T in investments. CalPERS and CalSTRS have lost over \$5.2 Billion due to oil and it is a continuing trend.

Karen Moskowitz said she is a member of 350 Seattle and a business owner. She stated that the California State Assembly voted to divest \$300M in coal. CalPERS and CalSTRS are the two largest public pensions plans in the country and are the first public pensions plans to divest. She stated that they will be proceeding with divestment. Coal has been losing value for some time. Ms. Moskowitz stated that a precedent has been set now by CalPERS and CalSTRS which can perhaps guide SCERS's activities.

Andrew Kidde stated that he is a long time Seattle resident. He referred to a recent report from the Stranded Assets Program at the University of Oxford on how investment consultants advise institutional clients on sustainable green investing. He stated that investment advisors' recommendations focus on short term outcomes and they lack expertise

with green investments. He said they reinforce a conservative view of asset managers' fiduciary duty. Mr. Kidde stated that the Mercer report is an exception and that he is happy to have Alex Bernhardt presenting today.

9:18 a.m. – Lou Walter called in

Lynn Fitz-Hugh stated that on May 18th the Supreme Court ruled that trustees have a fiduciary responsibility to continually monitor fund investments and remove imprudent ones. Ms. Fitz-Hugh stated that the duty to monitor is present. She asked the Board to support a motion to divest.

Susan Coskey had a question about the California bill that was passed in the legislature.

Jason Malinowski replied that CalPERS and CalSTRS took no position when it was in legislation. The bill requires divestment from thermal coal companies but only if the Boards find it consistent with their fiduciary duty. It also indemnifies the Boards if they choose to divest. The bill is waiting for the Governor's signature. Mr. Malinowski has not seen an official position from CalPERS or CalSTRS on how they will respond if the Governor signs it.

Ms. Coskey stated that she just wanted to clarify that it was legislative action and not board action.

Administrative Consent Agenda

Minutes:

Provided in the Retirement Board packet was the minutes from the August 13, 2015 Retirement Board regular meeting.

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

| | |
|--|---------------------|
| Service | \$12,370,228.93 |
| Beneficiary | \$ 932,581.92 |
| Disability | \$ <u>73,465.64</u> |
| Pension Payroll – PPE August 2015 | \$13,376,276.48 |
| | |
| Office Payroll – PPE August 11 and 25, 2015 | \$ 166,425.20 |
| | |
| Vouchers Processed – August 2015 | |
| • Expert and Consultant Services | \$ 66,643.81 |
| • Investment Management Fees | \$ 108,792.75 |
| • Interdepartmental Charges | \$ 112,489.93 |
| • Miscellaneous | \$ 45,934.50 |

Immediate Withdrawals of Contributions for the month of August 2015:

| MEMBER | Dept Name | Position |
|----------------------------|------------------|------------------|
| Acevez Ortiz, Yenny Dalila | Parks | Counselor |
| Albright, David J | FAS | Admin Spec I |
| Birch, Brennen P | Library | Library Assoc I |
| Bowman, Carolyn Louise | Library | Librarian |
| Cannon, Christopher A | Fire | Info Tech Prof B |
| Clark, Rachel | DPD | Info Tech Prof B |
| Clyburn Sr, Antonio M | Library | Security Ofcr |



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| | | |
|----------------------------|----------------|---------------------------|
| Crowell, Daniel Rincon | Library | Mats Distrib&Ground Asst |
| Debit, Donna Kathleen | DPD | Permit Specialist II |
| Donah, Mike E | DPD | Elevator Inspector, Chief |
| Epps, Matthew Todd | Library | Capital Impr Prjt Coord |
| Fuller, Andre Mikal | Muni Court | Admin Spec II |
| Henault, Brenda Ann | Library | Janitor |
| Hicks, David Merritt | HSD | Counselor |
| Howland Jr, George | DoIT | Strat Advrs 1 |
| Khazak, Vladimir | SPU | Executive 3 |
| Long, Andrew | City Light | Civil Engr, Asst I |
| Morton-Owens, Emily Gwyn | Library | Library Appl & Syst Mgr |
| Nelson, Janice L | HSD | Reg Nurse Consultant |
| Owens Jr, Joe Nathan | SPU | Meter Reader |
| Spearance, Carol | SPU | Manager 2 |
| Thomas, Cortnie | SPU | Util Acct Rep I |
| Vales, Steven Carlos | SPD | Comm Dispatcher I |
| Webb, Jeffrey Scott | SPU | Janitor, Lead |
| Young, Marcus Anthony | SPU | Util Acct Rep I |

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

Withdrawals for a total of: \$ 590,518.83

c. Ratification of Service Retirements

| Retiree | RetireDt | Age | Yrs | Days | DeptName | Position |
|-----------------------|-----------------|------------|------------|-------------|-----------------|----------------------------------|
| Allen III, Henry C | 7/4/2015 | 70 | 17 | 147.34 | SDOT | Sign Pntr, Sr |
| Baulig, Gerald T | 7/7/2015 | 61 | 37 | 191.03 | Parks Dept | Constr&Maint Equip Op |
| Brooks Jr., Norward J | 7/8/2015 | 59 | 27 | 93.5 | City Light | StratAdvrs1, Fin, Bud, & Actg-BU |
| Brown, Karen A | 7/7/2015 | 58 | 24 | 55.24 | SDOT | Sfty&Hlth Spec, Sr |
| Cepeda, Debra K | 7/13/2015 | 53 | 31 | 159.15 | Police | Pol Comms Dispatcher, Chief |
| Coburn, Gail A | 7/25/2015 | 64 | 23 | 43.08 | PublicUtil | StratAdvrs2, Utils |
| Dickinson, Carol A | 7/8/2015 | 60 | 21 | 80.08 | Vested | Manager3, Exempt |
| Donohue, Sharon K | 7/15/2015 | 58 | 17 | 168.34 | PublicUtil | Util Act Rep I |
| Duett, Neal K | 7/15/2015 | 64 | 7 | 151.73 | FAS | Stat Maint Mach |
| Duncan, Emanuel C | 7/25/2015 | 65 | 16 | 24.53 | PublicUtil | Drainage&Wstwtr Coll Wkr CI |
| Erickson, Steven S | 7/7/2015 | 52 | 26 | 94.75 | SDOT | Traffic Sign&Marking CC I |
| Green, Richard L | 7/15/2015 | 64 | 30 | 38.46 | FAS | Parking Meter Collector, Supvsg |

| | | | | | | |
|--------------------------|-----------|----|----|--------|------------|-----------------------------|
| Hare,Linda S | 7/11/2015 | 67 | 23 | 330.07 | Parks Dept | Maint Laborer |
| Harewood-Potter,Angela B | 7/7/2015 | 62 | 26 | 25.7 | Parks Dept | StratAdvsr2 * |
| Helmold,John R | 7/7/2015 | 61 | 26 | 75.54 | Parks Dept | Constr&Repair CC |
| Henderson,Barry G | 7/24/2015 | 61 | 21 | 1.57 | EXEC DEPTS | Property Rehab Spec |
| Hernandez,Michael A | 7/7/2015 | 66 | 32 | 352.73 | PublicUtil | Wtr Pipe Wkr,Sr |
| Janicki,Bernard S | 7/8/2015 | 66 | 12 | 199.98 | Police | Identification Tech |
| Kelley,Kenneth C | 7/29/2015 | 58 | 27 | 227.25 | SDOT | Constr&Maint Equip Op,Sr |
| Kessler,Sylvia M | 8/8/2015 | 57 | 16 | 284.73 | Vested | Admin Spec II |
| Lanier,Steven R | 7/4/2015 | 62 | 29 | 337.38 | PublicUtil | Info Technol Prof B |
| Lopez,George | 7/15/2015 | 61 | 30 | 4.02 | City Light | Maint Laborer |
| Lucas,Nota G | 7/15/2015 | 62 | 31 | 243.85 | PublicUtil | Png&Dev Spec,Sr |
| Manlangit,Edgardo R | 7/15/2015 | 72 | 30 | 266.41 | DPD | Land Use Plnr III |
| Mayer,Glenn A | 7/4/2015 | 66 | 14 | 34.72 | FAS | Auto Mechanic |
| McCoy,Brenda R | 7/8/2015 | 67 | 36 | 246.97 | Muni Court | Admin Spec I-MC |
| McEwen,Theresa S | 8/8/2015 | 65 | 19 | 129.46 | Parks Dept | Volunteer Prgms Coord |
| Messo,Karen K | 7/8/2015 | 66 | 17 | 323.18 | Human Svcs | Fin Anlyst-HSD |
| Morris,Frederic T | 7/8/2015 | 66 | 20 | 157.76 | City Light | Prot&Cntrl Elctn CC |
| Otani,Ann M | 7/8/2015 | 57 | 34 | 361.97 | Police | Info Technol Prof B |
| Overbey,Stephen G | 7/4/2015 | 60 | 18 | 274.49 | Police | Pol Comms Dispatcher I |
| Prince,Vincent R | 7/7/2015 | 57 | 29 | 72.37 | SDOT | Civil Engrng Spec,Assoc |
| Swanson,Ronald J | 7/15/2015 | 59 | 36 | 216.32 | City Light | Elec-Con-Wkg CC-Asg C Coord |
| Underwood,Charlie W | 7/1/2015 | 67 | 23 | 300.43 | | |
| Wallace,Ellen O | 7/15/2015 | 63 | 9 | 4.28 | Human Svcs | Fin Anlyst,Sr-HSD |
| Youngs Jr.,Robert M | 7/15/2015 | 61 | 41 | 179.7 | City Light | Elecl Work Rev CC |

For the month of August 2015: 74 new Members entered the System, 61 terminations, 36 Members retired in the System, 7 Members removed (\$9,996.54), 0 D/E Option, 4 F Option, and 0 over 60% benefit.

Motion: Upon motion by Nick Licata, seconded by Sherri Crawford., the Board of Administration approved the Administrative Consent Agenda. The motion passed unanimously (5-0).

- Minutes of the August 13, 2015 Board Meeting.
- Ratification of Retirement Payroll, Office Payroll, Other Payments and Withdrawals.
- Ratification of Service Retirements for the month of August 2015.

Mercer: Investing in a Time of Climate Change

Alex Bernhardt is the head of Responsible Investment for Mercer in the United States. Mr. Bernhardt stated that Mercer has \$9T in assets under advisement.

The report he is presenting on was released on June 4, 2015 and has been downloaded 3000 times.

Almost 400 institutions have divested from fossil fuel companies with the majority of these representing faith based organizations and foundations.



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Main arguments for divesting are an ethical argument that investing in a company condones its activity and a financial argument based on stranded assets theory.

Ms. Coskey asked about fiduciary duty. She stated that board members do not get to act on their consciences as a fiduciary.

Mr. Bernhardt replied that legal challenges of fiduciary duty are limited.

Ms. Coskey asked if there is anywhere that he knew where it has been upheld.

Lou Walter said it is a "yes or no" answer. They could be found in violation of their fiduciary duty.

Mr. Bernhardt replied "maybe". There is a lot of emphasis in fiduciary law on the process versus outcomes. He stated that consulting SCERS's counsel would be the best approach.

(Due to quorum concerns, Mr. Bernhardt's presentation was put on hold so that Executive Session and Agenda Items with Motions could be presented and voted on before several members of the board had to leave).

Executive Session

The Board of Administration entered into Executive Session at 9:49 a.m. for approximately 10 minutes to discuss a disability retirement application.

Executive Session was closed and the Board re-entered regular session at 9:58 a.m.

Susan Coskey leaves at 9:58 a.m.

Motion: Upon motion of Nick Licata, seconded by Sherri Crawford, the Board of Administration denied Mr. Brian Schaller's Disability Retirement application and directed SCERS's staff to advise Mr. Schaller of his appeal rights. The motion passed unanimously (4-0).

Non-Core Real Estate Manager Selection

Mr. Malinowski stated that Investment Staff brought forth Brookfield Strategic Real Estate Partners II as a recommended fund during the August 27, 2015 Investment Committee meeting. Staff discussed the search process and representatives from Brookfield presented on the organization and strategy.

Mr. Malinowski said that NEPC was also in full support of this recommendation.

Motion: Upon motion of Nick Licata, seconded by Sherri Crawford, the Board of Administration accepted the Investment Committee's recommendation to commit \$15 million to Brookfield Strategic Real Estate Partners II, as part of SCERS's non-core real estate allocation, pending satisfactory negotiation of a side letter agreement. The motion passed unanimously (4-0).

Mercer: Investing in a Time of Climate Change, continued

Mr. Bernhardt returned to his presentation. He described limitations and unintended consequences with divestment that made it a potentially difficult strategy to implement for institutional investors. Mercer prefers to reframe the question around how best to manage climate change risk.

Mr. Bernhardt reviewed Mercer's research. They worked with an advisory group of 13 members. Their research process involved utilizing climate models, developing risk factors and scenarios, estimating the sensitivity of asset classes to climate risk and identifying a set of portfolio implications. Their framework is based on four factors (technology, resource availability, impact, and policy) in order to describe the multi-faceted nature of climate change. Mr. Bernhardt stated that the policy factor is the most significant of all the factors while the resource availability and impact factors are more limited.

Jean Becker leaves at 10:25 a.m.

Mercer's four main findings are:

1. Climate change will have an impact regardless of scenario.
2. Sector impacts are most meaningful.
3. Asset class impacts are also material and vary by scenario.
4. A 2° C scenario does not harm overall returns out to 2050.

Lou Walter leaves at 10:34 a.m.

Mr. Bernhardt said that investors need to determine if climate risk should be considered in their portfolios and whether to take an active role in influencing climate risk outcomes. He stated that Europe is a leader in this regard. There is not as much action in the US. The US is an emerging market in responsible investing. Sixty percent (60%) of funds that are invested in Europe are invested responsibly. In the US it is 18%.

Mr. Bernhardt reviewed options for investors to protect against climate risk.

Mr. Licata asked Mr. Bernhardt where they found many of their investors leaning towards. Mr. Bernhardt replied that they are receiving increasingly more requests to do projects. They have conducted 4 or 5 presentations on their climate change study

ESG Quarterly Report

The ESG Quarterly Report was deferred until the October 8, 2015 Board of Administration meeting.

Investment Committee Report

Capital Points Partners Discussion

Mr. Malinowski stated that at the Joint Investment Board of Administration Committee meeting on August 27, 2015 there was action by the Board to remove the General Partner (GP) who had acted in a manner that was not in SCERS's best interest.

Tony Smith said that in the last two weeks, SCERS retained outside counsel and events have progressed very quickly. The GP has been served notice removing him and he has been replaced with an interim GP. There is no action for us to do right now.



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Quarterly Performance Review

Mr. Malinowski stated that the total fund returned 0.7% for the second quarter, 2.9% year-to-date through June and an estimated -2% year-to-date through early September.

Executive Director Report

Mr. Nakatsu stated that there were no changes to the work plan.

Mr. Davis stated that SCERS began contract negotiations with the selected vendor for the Pension Administration System in August. Ice Miller is advising in contract negotiations.

Adjournment

The meeting adjourned at 11:00 a.m.

Susan Coskey, Secretary