



**Seattle City Employees' Retirement System
Board of Administration Meeting
Seattle City Hall, Boards and Commissions Room
(206) 386-1293**

Board of Administration Members:

Councilmember Nick Licata, Chair
Glen Lee
Jean Becker
Lou Walter
Robert Harvey, Jr.
Sherri Crawford
Susan Coskey

SCERS Staff:

Ken Nakatsu, Interim Executive Director
Jeff Davis, Chief Finance/Operations Officer
Jason Malinowski, Chief Investment Officer
Tony Smith, Deputy Chief Investment Officer
Jill Johnson, Investment Strategic Advisor
Cecelia Chen, Investment Analyst
Nina Melencio, Office Administrator

Legal:

Carlton Seu, Seattle City Attorney's Office
Mike Monaco, Song Mondress Law Firm

Minutes of Thursday, November 12, 2015

Board Members Present: Nick Licata, Glen Lee, Jean Becker, Lou Walter (via conference call at 9:18 a.m.), Robert Harvey, Jr., Sherri Crawford, Susan Coskey (arrived at 9:28 a.m.)

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), Valerie Schloredt, Andrew Kidde, Tad Anderson, Lynn Fitz-Hugh, Secora Sawyer, Mariah Fisher, Bill Roach, Tom Kirn (FAS), Kate Moore (SDHR)

Nick Licata, Committee Chair, called the meeting to order at 9:13 a.m.

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

There was public comment.

Valerie Schloredt stated that previously the Board had said that in order to divest from fossil fuels they needed to see examples of peers doing so. She said that Providence, Rhode Island voted in July to divest and that Washington D.C. voted to divest almost entirely from fossil fuel companies. Ms. Schloredt stated that she hopes that the Board will investigate this.

Andrew Kidde said that the recent decline of coal and oil stocks reflect on-going structural concerns. Even with these concerns, most fossil fuel companies are betting on business as usual and increasing fossil fuel demand.

Tad Anderson spoke about a new investment tool from Corporate Knights that was mentioned in a November 10th email from Nick Licata to other board members. He stated that the tool was intended to assist the board in examining the financial impact of divesting from fossil fuels. The tool will be free and publicly available and only needs an Excel spreadsheet to use.

9:18 – Lou Walter joins the meeting by phone

Mr. Anderson stated that the CEO of Corporate Knights has offered to explain the methodology of the tool to SCERS staff. The tool cannot predict the future but can reveal trends. Mr. Anderson said that he hopes that the information can help provide solid evidentiary basis for staff to assess the question of fiduciary responsibility in regard to fossil fuel divestment.

Lynn Fitz-Hugh stated that today's presentation and previous presentations provide a solid case for fossil fuel divestment and are consistent with fiduciary responsibility. Ms. Fitz-Hugh said that several peer groups that have

partially divested include Rhode Island, DC and California. She said that California was ordered to only if it was consistent with fiduciary responsibility, and it still did.

Secora Sawyer stated she was here regarding her deceased mother's retirement benefits. Ms. Sawyer said she is her mother's sole designated beneficiary and other people are trying to steal the money by asserting that her mother was married. Ms. Sawyer said she understood from SCERS's legal counsel, Mike Monaco that the issue needed to be resolved in Superior Court, which she wants to avoid.

Nick Licata said that this situation is going to be discussed in Executive Session. But the Board wants to give its counsel, Mike Monaco, an opportunity first to review the fiduciary responsibilities of the Board after acting on the Administrative Consent Agenda.

Administrative Consent Agenda

Minutes

Provided in the Retirement Board packet was the minutes from the October 8, 2015 Retirement Board regular meeting.

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

Service	\$12,477,254.18
Beneficiary	\$ 942,208.10
Disability	\$ 75,708.08
Pension Payroll – PPE October 2015	\$13,495,170.36
 Office Payroll – PPE October 6 and 20, 2015	 \$ 172,304.74
 Vouchers Processed – October 2015	
• Expert and Consultant Services	\$ 243,137.07
• Investment Management Fees	\$ 2,127,745.07
• Interdepartmental Charges	\$ 117,643.44
• Miscellaneous	\$ 54,771.94

Immediate Withdrawals of Contributions for the month of October 2015:

MEMBER	Dept Name	Position
Albertson, Kori Lyn	Sea Ctr	Personnel Spec
Balansay, Carlos	SPU	Civil Engr, Supv
Calalang, Jonathan M	SPD	Info Tech Prof A, Exempt
Ford, Gary L	SDHR	Manager
Brink, Angela	DPD	Acctg Tech II
Hill, James B	SCL	Warehouser
Newborn, Cris	SPD	Pol Comms Dispatcher I
McClellan, Tyler S	FAS	Animal Contrl Ofcr I
Allwood, Colleen L	Parks	Rec Attendant
Blotter, Shane M	SCL	Pwr Dispatcher, Asst
Byron, Cynthia L	Library	Library Assoc II
Davidson, Joey M	FAS	Equip Svcr
Holden, Anne F	Arts & Cult	Public Relations Spec
Miller, George M	SDOT	Civil Engr Spec, Sr
Price, Jane V	Sea Ctr	Usher

Withdrawals for a total of: \$ 771,309.70

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

c. Ratification of Service Retirements

The following list represents the retirements that have been processed since the last Retirement Board meeting.

Retiree	RetireDt	Age	Yrs	Days	DeptName	Position
Berentsen,Joseph P	9/16/2015	64	29	190.89	DPD	Civil Engrng Spec,Sr
Campbell,William R	9/25/2015	64	10	324	Vested	Wtr Treatment Op,Sr
Cote,Dimne A	10/7/2015	57	20	18.95	City Light	Elctn-Con-(OI)
Dileva,Mary Pat	10/7/2015	65	15	300.67	City Light	Admin Spec III
Do,Andre	10/3/2015	64	24	334.23	City Light	Elecl Engrng Spec,Sr
Dyer,Paul A	10/3/2015	66	35	303.49	PublicUtil	Laborer
Evans,Hiroko S	10/7/2015	70	15	10.09	Human Svcs	Human Svcs Prgm Supv,Sr
Evans,John R	10/7/2015	70	24	101.21	PublicUtil	Civil Engrng Spec,Assoc
Fair,Muriel A	9/23/2015	52	30	131.32	PublicUtil	Util Svc Inspector,Sr
Guarin,David	10/7/2015	56	33	104.01	PublicUtil	Manager2,Utills
Hailey,Rosie L	10/7/2015	62	26	110.28	Law Dept	Legal Asst
Hayes,Scott E	9/12/2015	67	16	237.64	City Light	Manager2,Fin,Bud,&Actg-BU
Helton,Judy A	10/7/2015	62	16	257.32	City Light	Admin Staff Asst
Jensen,Carolyn L	9/16/2015	56	24	232.84	SDOT	Civil Engrng Spec,Assoc
Jerochim,Peter S	9/22/2015	61	35	110.72	City Light	Elecl Work Rev CC
Kenyon,Joyce N	9/17/2015	64	34	136.35	SDOT	Parking Pay Stat Shop,Supv
Khandekar,Mohan R	10/7/2015	73	30	38.81	Parks Dept	Architect,Sr
Klein,Robert J	10/7/2015	59	14	127.73	DPD	Admin Spec II-BU
Krueger,Jenelle T	10/7/2015	52	28	162.41	SDOT	Civil Engrng Spec,Sr
Kulseth,Stephen M	10/8/2015	62	5	76.54	Vested	Carpenter *
Norred,Cynthia J	10/7/2015	61	22	136.44	Police	Manager2,General Govt
Ogg,Wade S	10/6/2015	55	6	204.16	Vested	Line C CC
Patton,Douglas L	10/7/2015	64	21	67.13	Parks Dept	Info Technol Prof B
Prentice,Patricia A	9/2/2015	67	23	109.07	KC	ESD
Rose,Carolyn A	10/7/2015	69	24	125.29	City Light	Info Technol Systs Anlyst
Siegel,Teresa J	10/2/2015	53	30	11.19	Parks Dept	Accountant,Prin
Stonehouse,Dennis B	10/3/2015	62	30	53.14	PublicUtil	Util Systs Maint Tech,Sr
Ware,M. Christine	10/7/2015	63	23	70.62	PublicUtil	Manager2,General Govt
Weinstein,Elyette M	10/1/2015	65	1	170	Vested	
Williams,Daniel W	10/3/2015	59	36	356.92	PublicUtil	Maint Laborer

For the month of October 2015: 50 new Members entered the System, 66 terminations, 30 Members retired in the System, 17 Members removed (\$24,284.45), 5 D/E Option, 3 F Option, and 5 over 60% benefit.

Motion:

Upon motion by Nick Licata, seconded by Robert Harvey, Jr., the Board of Administration approved the Administrative Consent Agenda. The motion passed unanimously (6-0).

- Minutes of the October 8, 2015 Board Meeting.
- Ratification of Retirement Payroll, Office Payroll, Other Payments and Withdrawals
- Ratification of Service Retirements for the month of October 2015.

Mr. Licata wanted to hear about the Department of Labor (DOL) guidance on ESG.

Mr. Monaco stated that he received a copy of the DOL Interpretative Bulletin several days ago. Mr. Monaco said that what the DOL guidance does is that it takes the 1994 ESG guidance and essentially reissues it.

9:28 Susan Coskey arrives at the meeting

Mr. Monaco went on to say that while DOL provided more clarity about how ESG issues could be considered by fiduciaries, it did not substantially change their responsibilities for investments. Mr. Monaco said that SCERS is still operating on the same legal foundation that it has always been on as reflected in its current ESG Policy.

Mr. Licata responded that he appreciated that Mr. Monaco was dealing with this directly because the headlines say that DOL was easing restrictions. The 1994 interpretation was more liberal. The new interpretation looks like it reverses it.

Mr. Monaco stated that the one thing the DOL clarified is what we thought was obvious. If you have an ESG consideration that impacts investment risk, then it can be considered just like any other investment risk. There is no higher standard just because the risk is related to ESG.

Mr. Licata asked if the new instruments that have been developed enter into this.

Jason Malinowski replied that there are a number of data providers offering ESG services. These services have been expanding for a number of years and are not tied to the DOL.

Mr. Licata asked if there are tools that SCERS can utilize.

Mr. Malinowski replied that as companies disclose more, vendors are coming out with more and potentially more useful tools.

Mr. Licata asked if the prudence is largely due to the process.

Mr. Monaco responded that we cannot rely on getting lucky. If you do not have a prudent process and you still do okay, it does not matter. It is still a breach of fiduciary responsibility. If you have a prudent process, it does not matter if something goes wrong. The critical issue is the process.

Mr. Licata said he is asking the staff to look at providing an analysis with the pros and cons of divesting from thermal coal and investing in a fossil fuel free index fund. He asked if that was something we can look at.

Ken Nakatsu replied that staff did that analysis at the February Board meeting. There was a memo which summarized the seven reasons why NEPC did not feel divestiture was prudent. The Investment Advisory Committee agreed. It covered coal specifically but did not specifically cover investing in a fossil free index fund. Perhaps some things have changed, but otherwise the points made in the memo, at this time, still seem valid.

Mr. Licata wanted to know when the next ESG report will be presented and who compiles the information for the report.

Mr. Malinowski responded that Jill Johnson and he produce the report with input from NEPC. The report is produced quarterly and will be provided at the December board meeting.

Executive Session

The Board of Directors entered into Executive Session at 9:56 a.m. for approximately 15 minutes to discuss claims to the death benefits of Michelle R. Sawyer.

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

Motion: Upon motion of Nick Licata, seconded by Robert Harvey, Jr., the Board of Administration agreed to follow legal counsel's recommendation on further proceedings on this matter. The motion passed unanimously (5-0).

Administrative Committee Report – October 29, 2015

Jeff Davis reported on the October 29, 2015 Administrative Committee Meeting.

Mr. Davis stated that IT Manager Claire Foster spoke about the capability of the Board's SharePoint site and also provided training.

Mr. Harvey is leading the charge on the Board self-evaluation process. He will be providing copies of Board evaluation examples prior to the next meeting.

There was a discussion on the Strategic Planning Process recognizing that a new Executive Director and Board Chair will be coming on board soon. Administrative Committee members will map out a framework and timeline at a future meeting.

Investment Committee Report – October 29, 2015

Jason Malinowski reported on the October 29, 2015 Investment Committee meeting.

There was discussion on the Monthly Portfolio Monitor for September 2015. The market value at the end of September 2015 was \$2.25B with a funding ratio of 63%.

Mr. Malinowski stated that Don Stracke and Allan Martin of NEPC gave an overview of infrastructure and recommended a pacing plan to target a fifty percent (50%) allocation to an open-end core fund and 50% to closed-end funds. This will take a number of years to accomplish.

Mr. Malinowski reviewed the recommendation to invest in Stonepeak II for \$8M. The Investment Committee had approved a \$10M commitment, but Stonepeak II is oversubscribed, so they came to us yesterday to lower the commitment to \$8M. The legal review has already been completed.

Motion: Upon motion of Nick Licata, seconded by Glen Lee, the Board of Administration accepted the Investment Committee's recommendation to commit \$8 million to Stonepeak Infrastructure Fund II LP. The motion passed unanimously (7-0).

Executive Director Search Update

Kate Moore of Seattle Department of Human Resources (SDHR) reported on the search for SCERS new Executive Director.

Ms. Moore stated that Linda Paul of the Search Partnership will be reviewing her recruiting and sourcing process with members of the Board at a meeting later this afternoon. The purpose of today's meeting will be to select those that appear to be the best match. Ms. Paul will then do in-depth interviews before the meeting with the Board in December.

Executive Director Report

Jeff Davis reported that the Pension Administration System (PAS) contract's final version was sent to the vendor and should be completed this week.

Mr. Davis stated that SCERS has received a recognition award for administration from the Public Pension Coordinating Council (PPCC) which is a coalition of three national associations that represent public retirement systems and administrators: the National Association of State Retirement Administrators (NASRA), the National Council on Teacher Retirement (NCTR), and the National Conference on Public Employee Retirement Systems (NCPERS). To receive the Recognition Award for Administration, SCERS must certify that it meets the requirements in five areas of assessment:

- Comprehensive Benefit Program
- Actuarial
- Audit
- Investments
- Communications

There was a discussion that the retirement estimates' backlog was trending on the high side. Mr. Davis stated that this was due to auditing but the department has added resources, and an employee that has been working out of class in another agency has returned to member services.

Mr. Davis reported on the Work Plan and noted that contract negotiations on the PAS have been extended into November although, hopefully, not past this week. The credit and infrastructure efforts have also been extended.

Mr. Malinowski stated that SCERS is still in legal negotiations with BlueBay.

Mr. Davis said that a consultant has been retained to improve the spreadsheet tool that the retirement specialist utilizes for benefit estimates. The spreadsheet is going to be used for 3-4 more years while the PAS is being implemented. This will be completed in the next few months and staff will be trained in January and February.

Adjourn Meeting

Motion: Upon motion of Sherry Crawford seconded by Lou Walter, the Board of Administration voted to adjourn the meeting at 10:30 a.m. The motion passed unanimously (7-0).