



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, December 12, 2015 - REVISED

Board Members Present: Nick Licata, Glen Lee, Jean Becker (arrived at 9:10 a.m.), Lou Walter (arrived at 9:12 a.m.), Robert Harvey, Jr., Sherri Crawford

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

Others Present: Carlton Seu (Seattle City Attorney's Office), Mike Monaco (Song Mondress Law Firm), Michael Ryan (Seattle City Attorney's Office), Valerie Schloredt, Tad Anderson, Lynn Fitz-Hugh, Bill Roach, Crystal Roncek (SDHR),

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.

Tad Anderson stated that we are the first generation to feel the effects of climate change and are the last generation that can do something about it. He said that the Board's actions to date are not adequate. Mr. Anderson encouraged the Board to think outside of the business-as-usual box.

Valerie Schloredt stated that if the board had divested three years ago from coal, that SCERS would have saved more than \$150,000 per year. She said that the coal industry is going down and making a big mess along the way. Ms. Schloredt stated that SCERS needs to look back on the past year for perspective and asked that SCERS divest from coal in 2016.

Bill Roach stated that he is a 44 year member of SCERS and has appeared before the Board five times. Mr. Roach said that the City of San Francisco Retirement System voted to divest from coal the previous day, December 9, 2015. He stated that coal has lost money for years and no one is claiming coal will recover. Mr. Roach requested the Board to divest from coal.

Lynn Fitz-Hugh stated that she thought \$19M lost on fossil fuel investments over the last three years was a lot of money, as is the \$535,000 lost on coal investments. She said that fiduciary responsibility requires SCERS to make a choice that is the same or better. Ms. Fitz-Hugh stated that SCERS's attorney says that the Board does not have to turn out to be right, but has to have a reasonable belief that they are making a sound choice. She stated that NEPC's advice more than a year ago that it would cost more to divest coal than to hold it is false. Ms. Fitz-Hugh asked the Board to reassess their decision.

(Jean Becker arrived at 9:10 a.m.)

Administrative Consent Agenda

Minutes

Provided in the Retirement Board packet were the minutes from the November 12, 2015 Retirement Board regular meeting and November 12, 2015 Special meeting of the Board.

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

Service	\$12,647,153.00
Beneficiary	\$ 959,969.03
Disability	\$ <u>76,814.27</u>
Pension Payroll – PPE November 2015	\$13,683,936.30
 Office Payroll – PPE November 13 and 25, 2015	 \$ 173,196.90
 Vouchers Processed – November 2015	
• Expert and Consultant Services	\$ 24,362.68
• Investment Management Fees	\$ 173,984.99
• Interdepartmental Charges	\$ 112,270.74
• Miscellaneous	\$ 54,693.38

Immediate Withdrawals of Contributions for the month of November 2015:

MEMBER	Dept Name	Position
Ackley, Tod	Sea Ctr	Stage Tech
Arndt, Lara E	Library	Library Assoc II
Brown, Jon M	SCL	Manager3, Exempt-BU
Burrell, Kevin S	OED	Manager 3, Exempt
Castilleja, Michael D	Parks	Rec Leader
Cayabyab, Cherry G	NeighDept	StratAdvsrI,Exempt
Davidson, Joey M	FAS	Equip Svcr
Driss, Miriam Sue	Library	Branch Mgr I
Evans, John S	SPU	Civil Engrng Spec,Assoc
Holsworth, Sarah J	FAS	Equip Svcr
Kenyon, Joyce N	SDOT	Parking Pay Stat Shop,Supv
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Khandekar, Mohan R	Parks	Architect,Sr
Kinsman, Monika Joy	SPD	Volunteer Supv
Krueger, Jennelle T	SDOT	Civil Engrng Spec,Sr
Lanhaus, Liliana G	FAS	StratAdvsrI,Fin,Bud,Actg
Laurencio Jr, Raymond R	SDOT	Gardner
Leavitt, Jordan J	SCL	Lnwkr
Mohamed, Fouzia M	HSD	Counslr

Mohamud, Idil N	HSD	Counslr
Moze III, Herman A	SCL	Admin Spec II-BU
Niederer, Kenneth B	SPU	Info Technol Prof B-BU
Niro, Raennette B	HSD	Admin Spec I-BU
Ogg, Wade	SCL	Line C CC
Olson, Christine L	Law	City Attorney, Asst
Sahle, Sitina E	Library	Library Assoc I
Ware, M. Christine	SPU	Manager2, General Govt

Withdrawals for a total of: \$1,564,987.81

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	Years	Days	DeptName	Position
Blouch, Robert R	11/4/2015	59	24	307.88	City Light	Meter Elctn
Byrd, Russell C	11/4/2015	58	21	182.95	FIRE	Fire Protection Engr, Sr
Jaramillo, Steve P	10/14/2015	59	34	163.05	PublicUtil	Constr&Maint Equip Op
Lester, Martha S	10/24/2015	61	25	296.67	LegCtyCncl	StratAdvsr-Legislative
McBride, John R.	11/13/2015	60	13	219	Vested	Vested
Mejilla, Gerardo V	11/4/2015	65	26	65.13	PublicUtil	Pmp Stat Elecl Tech
Moorman, Jeffrey W	10/21/2015	67	9	71.32	DPD	Info Technol Prof B-BU
Pratt, Kathryn A	11/4/2015	67	10	362.65	Human Svcs	Counslr
Rasmussen, Mary E	11/4/2015	58	40	80.69	Parks Dept	Elctn CC
Rolla, Lea Ann	11/4/2015	60	25	268.15	PublicUtil	Wtr Treatment Op-WDM I
Skinner, Jeffrey L	11/4/2015	69	37	234.5	Parks Dept	Rec Cntr Coord
Wang, Xiao S	11/3/2015	72	10	49.3	Library	Page

For the month of November 2015: 18 new Members entered the System, 35 terminations, 12 Members retired in the System, 12 Members removed (\$15,782.28), 2 D/E Option, 2 F Option, and 2 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 (5-0).

- Minutes of the November 12, 2015 Board Meeting.
- Minutes of the November 12, 2015 Special Meeting of the Board.
- Ratification of Retirement Payroll, Office Payroll, Other Payments and Withdrawals
- Ratification of Service Retirements for the month of November 2015.

ESG Quarterly Report

Jason Malinowski and Jill Johnson gave the ESG Quarterly Update for the fourth quarter.

Mr. Malinowski reviewed developments of other US public pensions regarding fossil fuel investments.

(Lou Walter arrived at 9:12 a.m.)

Mr. Malinowski reported that Corporate Knights and South Pole released a free tool that calculates performance over the past three years if an investment portfolio had been divested of fossil fuel companies. Staff ran the tool on SCERS public equity portfolio. The three year time period is very short. If you look at the effects since 1990, the return impact is immaterial but the standard deviation is higher for the divested portfolio.

Mr. Licata asked what analysis California and San Francisco are using.

Mr. Malinowski replied that staff did not know what San Francisco is using, but CalPERS is looking at the last 20 years. He stated that over the last five years coal companies have lost 90%, while the S&P 500 Index is up 90%, but just looking at recent performance may be inaccurate. It is difficult to extrapolate what will happen in the future.

Mr. Nakatsu said that Japanese equities are down 9% since 1990 while the S&P 500 Index is up more than 800%, but no one would argue to divest from Japanese equities.

In terms of other items on the ESG Quarterly Update, Mr. Malinowski said that State Street Global Advisors launched the first fossil free ETF about a week ago.

Ms. Johnson reported that Mr. Nakatsu attended the INCR roundtable for plan sponsors and investment consultants in October 2015. SCERS rejoined the Council of Institutional Investors (CII) which is focused on the governance part of ESG. Ms. Johnson attended the CII three-day Fall Conference.

Ms. Johnson said that since February 2015, members of SCERS staff have participated in 41 meetings, events, and calls devoted to ESG matters.

SCERS joined 400 other investors in signing the Global Investor Statement on Climate Change.

SCERS staff has hired Mercer to produce ESG-focused research reports on finalists from the infrastructure RFP.

Mr. Malinowski reported that staff was approached by Friends of the Earth about Dimensional Fund Advisors' exposure to Southeast Asian companies involved with palm oil production and deforestation. Mr. Malinowski stated that NEPC is scheduled to provide an ESG update at the February 2016 Investment Committee meeting.

Mr. Licata asked what the next steps were related to ESG.

Mr. Malinowski responded that in February 2015, NEPC identified seven (7) reasons why SCERS should not divest. They are currently assessing if these reasons still hold..

Mr. Licata requested a memo to the Board about the nature of NEPC's February 2016 ESG review.

Executive Session – Capital Points Litigation

The Board of Directors entered into Executive Session at 9:30 a.m. for approximately 15 minutes to discuss current litigation.

Executive Session was closed and the Board of Administration meeting re-entered regular session at 9:42 a.m.

Capital Point Partners, LP Proposed Settlement Agreement (Staff)

Motion: Upon motion of Lou Walter, seconded by Nick Licata, the Board of Administration accepted the Investment Committee's recommendation to give Staff the authority to work with legal counsel to pursue a settlement with the defendants in the litigation case of Capital Link Fund I, LLC et al. v. Capital Point Management, LP et al. as agreed to by the majority of Limited Partners in Capital Point Partners, L.P. The motion passed unanimously (6-0)

Administrative Committee Report – November 19, 2015

Jean Becker reported on the November 19, 2015 Administrative Committee (AC) meeting. Ms. Becker stated that the AC reviewed board charters and identified several to review for updating as well as updating the strategic plan and beginning a board self-evaluation process.

Ms. Becker said that a consultant would be helpful to help plan a timeline and process so that the new Executive Director (ED) can hit the ground running. She stated that Mr. Harvey has been working on the board self-evaluation process and benchmarking it against other organizations. It may be helpful for the consultant to assist with the board self-evaluation process also.

The AC would like to recommend to the Board that it add resources for strategic planning, and recommend that Mr. Nakatsu look at various approaches on how to move forward with strategic planning. Ms. Becker stated that this is a discussion item and there is no need for a motion. Ms. Becker would like options presented at the January 2016 board meeting.

Staff will also provide a list of accomplishments that identify which current strategic plan objectives the accomplishments correspond to. Ms. Becker noted that SCERS has made a lot of progress towards the strategic plan objectives and it was a good time to add any new ones.

Investment Advisory Committee Charter and Investment Advisory Committee Appointment

Mr. Malinowski reviewed the proposed changes in the Investment Advisory Committee (IAC) Charter that had been recommended by the Administrative Committee. Changes include:

- Adding a process for the recruitment and selection of new IAC members
- Revising the duties of IAC members
- Changing the IAC member term from 2 to 3 years

Motion: Upon motion of Nick Licata, seconded by Robert Harvey, Jr., the Board of Administration accepted the Administrative Committee's recommendation to adopt the revised Investment Advisory Committee Charter. The motion passed unanimously (6-0).

Motion: Upon motion of Nick Licata, seconded by Lou Walter, the Board of Administration accepted the Administrative Committee's recommendation to reappoint Joseph Boateng, Alan Hess, and Dwight McRae to the Investment Advisory Committee with terms commencing on January 1, 2016. The motion passed unanimously (6-0)

Investment Committee Report – November 19, 2015

Tony Smith reported on the November 19, 2015 Investment Committee (IC) meeting. Mr. Smith stated that Don Stracke of NEPC presented the third quarter performance report. For the quarter, SCERS returned -5.3%, which was consistent with the policy index.

The market has been volatile with SCERS returning an estimated 0.5% year-to-date. This is a challenge since the actuarial return is 7.5%. High yield spreads have increased to well over 600 basis points and the market is anticipating an increase in defaults. Yet unemployment is down to 5%.

Robert Harvey, Jr. stated that Metro is looking for drivers, school districts can't find substitute teachers, McDonalds is hiring.

Mr. Harvey asked what it meant to the system if it has three years of flat performance.

Mr. Nakatsu replied that it will affect the City's budget.

Mr. Davis said that staff determines on an annual basis what the City's required contribution is to eliminate the underfunding in the amortization period, which is now 27 years. Last year it went down, this year it is flat.

Glen Lee stated that it also depends on NEPC's expected returns to the various asset classes. If NEPC anticipates some of the asset classes behaving much differently than before, it would impact the actuarial rate of return and the City's contribution rate.

Mr. Malinowski reported that Sherri Crawford, Tony Smith and he will attend NEPC's public fund workshop in January 2016. He said the early read is that asset class expected returns will be flat to slightly higher than last year.

Mr. Smith continued with his IC report. He stated that there is no change to the watch status for the PIMCO Total Return strategy.

Adams Street Partners also provided an update of SCERS's private equity portfolio.

Executive Director Report

Ken Nakatsu stated that there is an updated work plan. Work with ViTech will pick up in earnest in January 2016.

Mr. Davis stated ViTech staff was on-site this week and last week focusing on staff concerns and data conversion. Good progress was made and for the next three months will be working on planning, then implementation.

Mr. Nakatsu stated that the Pension Administration System (PAS) implementation is a three year process and will be the most significant operational development for employees and retirees.

He said that staff is also cleaning up the municipal code. If the second tier retirement plan is approved, it will need to be added to the code.

Mr. Davis reported on the dashboard and said that there has been improvement on the retirement estimate backlog.

In January and February, member services staff will be trained on the retirement estimate tools and the process. We want to maximize the productive time of the retirement specialists with less data manipulation and set up.

Mr. Malinowski stated that third quarter was a challenge, although SCERS is in line with its peers and the policy index.

Presentation

This board meeting is Nick Licata's last board meeting as chair of the board due to his retirement. Mr. Walter thanked Mr. Licata for his contributions to SCERS on behalf of all the board members and presented Mr. Licata with an engraved clock.

Mr. Nakatsu stated that SCERS really got a lot accomplished the last two years having Mr. Licata on board.

Mr. Licata said that the board members and staff are really committed to being thorough. He was feeling confident leaving the board.

Adjourn Meeting

Motion: The Board of Administration voted to adjourn the meeting at 10:41 a.m. The motion passed unanimously (6-0).