



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

**Board of Administration Members:**

Councilmember Tim Burgess, 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  
Clair Foster, IT Manager  
Cynthia Scheiderer, Member Services Manager  
Deontrae Sherrard, Principal Accountant  
Nina Melencio, Office Administrator

**Legal:**

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

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**Minutes of Thursday, January 14, 2016**

**Board Members Present:** Tim Burgess, Glen Lee, Jean Becker, Lou Walter (via conference call), Sherri Crawford, Susan Coskey (via conference call)

**SCERS Staff Present:** Jeff Davis, Jason Malinowski, Tony Smith, Jill Johnson, Cecelia Chen, Claire Foster, Nina Melencio

**Others Present:** Michael Ryan (Seattle City Attorney's Office), Mike Monaco (Song Mondress Law Firm), John Masterjohn (ARSCE), Barbara Graham (ARSCE), Nate Van Duzer (CM Burgess' office), Scott Larson (ViTech)

Tim Burgess, Committee Chair, called the meeting to order at 9:03 a.m.

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

There was public comment.

John Masterjohn stated he was president of the Active and Retired Seattle City Employees (ARSCE) which represent approximately 1,700 members. Mr. Masterjohn had two items he wanted to speak about. The first item was divestment. The ARSCE board is against divestment of fossil fuels from the SCERS's portfolio. Mr. Masterjohn stated that SCERS needs to keep the portfolio as diverse as possible.

Mr. Masterjohn also came to speak about Interim Executive Director Ken Nakatsu. He stated that the Executive Director position will be interviewed for soon and Mr. Nakatsu will be someone who is hard to replace. Mr. Nakatsu has greatly improved the retirement system since taking over. Mr. Masterjohn asked the Board to take into account how Mr. Nakatsu worked with city employees, new retirees, ARSCE and the unions, when interviewing for his replacement.

Barbara Graham introduced herself as the vice president of ARSCE and stated that she was speaking on her own behalf today. She thanked the Board for hiring Ken Nakatsu as the interim Executive Director. She said that Mr. Nakatsu had a drive and compassion that enabled him to succeed in making a substantial contribution.

Ms. Graham also spoke about fossil fuel divestment. She asked the board to continue in their fiduciary responsibility when considering divestment.

## Administrative Consent Agenda

### Minutes

Provided in the Retirement board packet were the minutes from the December 10, 2015 Retirement Board regular meeting and the December 18, 2015 Special Meeting of the Board.

Jeff Davis stated there was nothing special to note.

Jean Becker said there was one comment on page 7 of the board packet that she is requesting to be deleted that is part of the administrative committee report. Ms. Becker stated it did not reflect her recollection of what occurred.

Mr. Burgess stated that the change will be made with no objections.

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

<b>Service</b>	\$12,661,704.44
<b>Beneficiary</b>	\$ 927,026.78
<b>Disability</b>	\$ <u>75,760.66</u>
<b>Pension Payroll – PPE December 2015</b>	\$13,664,491.88
 <b>Office Payroll – PPE December 1, 15, and 29, 2015</b>	 \$ 265,595.65
 <b>Vouchers Processed – December 2015</b>	
• Expert and Consultant Services	\$ 38,057.00
• Investment Management Fees	\$ 558,904.60
• Interdepartmental Charges	\$ 113,231.96
• Miscellaneous	\$ 49,727.11

### **Immediate Withdrawals of Contributions for the month of December 2015:**

<b>MEMBER</b>	<b>Department Name</b>	<b>Position</b>
Albritton, Heidi Maurine	HSD	Executive1
Bartlett,Kara M	Library	Library Assoc I
Crovella, Marc	Library	Janitor-Library
Douglass, June Ellen	SCL	Customer Svc Rep
Henault,Brenda A	Library	Janitor-Library
Henderson,Jennifer D	Police	Pol Comms Dispatcher I
James, Lisa Sue	SCL	Accountant
Jones,Taira Markita	Muni Ct	Admin Spec - I MC
Kuylman,Marika F	SCL	Engrng Aide
Lucio,Toni Michelle	SCL	Accountant,Sr
Noble, Marion David	FAS	Cust Svc Rep
Overbey,Phyllis	Police	Retiree-Beneficiary
Painton,Michael D	Sea Ctr	Gardner

Payne,Vincent H	SDHR-TES	Admin Spec - II-BU
Rodriguez,Peter	Parks	Laborer
Spafford,D W	DPD	Elevator Inspector,Sr
Throckmorton,Alexandra	Parks	Lifeguard
Vanek, Russell K	DoIT	Info Tech Prof B-BU
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Vela,Steven PF	Parks	Aquatic Cntr Coord

**Withdrawals for a total of: \$608,420.12**

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
<b>Atwood,Michael R</b>	<b>12/2/2015</b>	<b>58</b>	<b>38</b>	<b>215.24</b>	<b>City Light</b>	<b>Meter Reader</b>
Dalton,John E	12/2/2015	66	15	92.25	Public Util	Drainage&Wstwr Lead Wkr CII
Elliott,Steven D	12/2/2015	60	28	352.48	Public Util	Util Sysys Maint Tech
Evans,Linda D	11/27/2015	66	15	163.57	Vested	Admin Spec I-BU
Ferreira,Linda M	12/2/2015	59	16	105.58	Public Util	Mgmt Sysys Anlyst,Sr
Gilmore,Daniel	12/2/2015	58	20	139.32	City Light	Meter Elctn Working CC
Harrison,Nathan	11/6/2015	70	27	5.33	Sea Center	Security Ofcr,Sr
Mayo,Marc	11/4/2015	60	15	364.82	Law Dept	City Attorney,Asst
McGregor,Kate D	12/2/2015	58	31	300.04	SDOT	Signal Elctn V
Santos,Lizabeth L	12/2/2015	63	29	228.91	Public Util	Info Technol Prof B-BU
Spencer,Craig S	11/16/2015	56	10	111.18	Vested	HVAC Tech
Trahan,Raymond	11/10/2015	62	9	160.82	Parks Dept	Maint Laborer
Vanila,Tomasi	12/2/2015	51	17	212	Parks Dept	Cement Finisher-Parks Facilities
Vela,Steven P	11/19/2015	55	28	33.86	Parks Dept	Aquatic Cntr Coord
Walton-Sawadogo,Linda M	12/2/2015	59	34	101.28	City Light	Admin Staff Asst
Wilton,Cassandra L	12/2/2015	67	33	147.15	Police	Pol Comms Dispatcher III

For the month of December 2015: 79 new Members entered the System, 39 terminations, 16 Members retired in the System, 15 Members removed (\$15,165.97), 3 D/E Option, 3 F Option, and 1 over 60% benefit.

**Motion:**

Upon motion by Tim Burgess, seconded by Glen Lee, the Board of Administration approved the Administrative Consent Agenda. The motion passed unanimously (6-0).

- Minutes of the December 10, 2015 Board Meeting.
- Minutes of the December 18, 2015 Special Meeting of the Board.
- Ratification of Retirement Payroll, Office Payroll, Other Payments and Withdrawals
- Ratification of Service Retirements for the month of December 2015.

## **Introduction of ViTech/PAS**

Jeff Davis introduced Claire Foster, SCERS IT Manager, and Scott Larson, project manager from ViTech.

Mr. Davis stated that a goal this year is to give the Board more exposure to various staff in the operations department and get to know the work they do. Ms. Foster and Mr. Larson will speak briefly on where SCERS is with the Pension Administration System (PAS).

Ms. Foster reported that staff signed the contract with ViTech on November 17, 2015 and were fortunate to get the "A" team with ViTech.

Mr. Larson is the associate director at ViTech systems and has been with ViTech for 14 years. ViTech is a software development company based in New York with over 100 clients. They have done similar projects with a number of public pensions including pensions in Pennsylvania, Ohio State Teachers, Orange County, Ventura County and San Mateo County.

Mr. Larson stated that a lot of the same team that worked on the Orange County project is working on SCERS's PAS project. Orange County just went live last month.

Both Mr. Larson and Ms. Foster agreed that the teams have a good synergy.

Ms. Foster stated that they have completed an eight week series of meetings in which they reviewed every one of the requirements line by line. By March 31, 2016, they will complete the planning phase to finalize the scope of the project. At the end of the year, they will be rolling out the ECM of the system in which the member files will be imaged. The team is looking to fully implement the project by 2018.

## **Board of Administration Self-Evaluation**

Jean Becker stated that Robert Harvey will benchmark with other boards on the board self-evaluation process and they have asked Steve Boyd to give the Administrative Committee a snapshot on what he might recommend. They expect to review the information at the next Administrative Committee.

Ms. Becker said that the focus for the self-evaluation will be clarification of the business processes and decision making practices of the Board. She hoped the board self-evaluation process would be an efficient process.

Ms. Becker stated that the Administrative Committee also talked to staff about accomplishments and asked Ken Nakatsu to compile what has been addressed over the last few years. Ms. Becker said that the strategic plan dates back to when Tim Burgess was chair of the Board. SCERS staff developed the initiatives and work plans to address each of the four areas in the strategic plan.

The new strategic planning process would begin in late spring after the new Executive Director is hired.

## **SCERS's 2015 Accomplishments**

Jeff Davis reported on SCERS's accomplishments. He stated that the memo included in the board materials did not encompass everything that SCERS has accomplished over the last three years.

Mr. Davis reviewed some of the accomplishments of the last several years.

In the last three years the department has focused on reorganizing and restructuring, where needed, to increase capacity in customer service. Outdated and unstable databases were transitioned to more stable ones, i.e., from R-

base to Oracle so that staff could work more efficiently. Tools were streamlined for retirement calculations for accuracy and ease of use.

Changes were made to the Investment Team with the addition of a Chief Investment Officer and an Investment Analyst. An ESG policy was adopted by the board and the investment policy was revised. NEPC was selected as SCERS's new investment consultant.

Staff worked with a consultant on organizational culture. The work continues with an internal group called One Team that meets monthly for information sharing and to build the agendas for the monthly all staff meetings.

Mr. Davis stated that, of course, this is just a few of the accomplishments of staff and it is a testament to staff and their willingness to embrace change.

Mr. Burgess stated that it is exciting for him to come back to the board after two years and see great progress.

Susan Coskey said that she knows how hard Mr. Davis and his team have been working. She stated that Mr. Davis has been proactive and she wanted to thank him.

### **SCERS's Organizational Summary**

Steve Boyd, a consultant from MacDonald Boyd & Associates, reported to the Board on SCERS's organization.

Mr. Boyd stated that he has been working with Ken Nakatsu, Jeff Davis, Jason Malinowski and the SCERS's Extended Leadership Team (Tony Smith, Claire Foster, Cynthia Scheiderer, Deontrae Sherrard, and Nina Melencio) since July 2015. Mr. Boyd said he was surprised to learn that Tony Smith is the senior manager in the organization and he has only been with SCERS since 2010. This is a testament to the amount of turbulence that SCERS has been through.

Mr. Boyd said that there has been a request from the Board to update the strategic plan. This request comes at a critical moment due to the hiring of the new Executive Director.

He stated that the Board would want to have a leadership group that is strongly aligned with the Board. He added that most resets in organizations fail and 80% fail due to the lack of leadership constancy. Mr. Boyd said that the leadership staff has done a pretty remarkable job. To ensure continued progress on the organizational side that complements real progress on the technical side, Mr. Boyd stated that it is important that the organization have constancy going forward with alignment to values.

Mr. Boyd said that he focused on the people side and he prepared a proposal at the request of Ken Nakatsu.

Ms. Coskey thanked Mr. Boyd for his work and stated that she thought he could assist with the transition of the new Executive Director. She said that support would be helpful.

Ms. Becker asked Mr. Boyd to recap some of his observations and recommendations.

Mr. Boyd stated that he made note of a dynamic of change. The existing leadership recognizes that high quality of work and high standards in goal areas is important. There are measurable and accountable goals and metrics that are being worked on that front.

Mr. Boyd said that the Board will want to hire an Executive Director who is technically competent but also needs to focus on the fourth goal area around organizational culture. The Board will want to find someone who is a people developer and team builder who will continue the work going forward. He stated that the Board should focus on that during the interview process. He gave an example of candidates who look great on paper but may not be a good fit for the culture.

He said that there is a real commitment from the Extended Leadership Team to becoming more proactive in thinking about the organization and how it performs. Mr. Boyd stated that there is research on great places to work that says

performance is based on the level of “felt” trust. . The SCERS’s staff is building a strong culture of trust and performance.

### **Investment Staff Review of 2015 and Preview of 2016**

Jason Malinowski and Jill Johnson presented a review of investment initiatives completed in 2015 and a preview of the areas that investment staff is focused on for 2016.

*(10:04 a.m. – Lou Walter left the meeting)*

Mr. Malinowski finished the presentation by describing SCERS’s nine investment beliefs that are meant to guide investment decisions.

Mr. Malinowski said that NEPC will review 2015 performance at the Investment Committee meeting in February.

Mr. Burgess asked if there was a summary of manager fees. Mr. Malinowski responded that there was and he would provide it to Mr. Burgess.

### **Work Plan and Dashboard**

Jeff Davis reported on the Work Plan and Dashboard.

He stated that the Work Plan had no new items, although it did include the investment procedures which were completed at the end of the year.

On the dashboard, there has been significant progress on the outstanding backlog of retirement estimates. Turnaround time is high as staff get to the older retirement estimates.

Mr. Burgess asked if city employees who did not initially join the retirement system could still join the system and buy-back time.

Mr. Davis replied that those employees would only be exempt employees. Exempt employees can join the retirement system at any time. They are allowed to purchase back time at the time of separation or retirement.

Ms. Coskey asked if there was a legal reason that staff were only allowed to purchase back time at separation.

Mr. Davis replied that it was the current rule. Ms. Coskey said that the rule was making the retirement system less accessible and wanted to know if there was a reason that the rule could not be changed.

Mr. Davis stated that what employees are purchasing is the actuarial cost because it’s the present value of a future benefit. There are other buyback types based on missed contributions based on the dollar amount an employee would have paid plus interest. It is a missed opportunity by not having the money invested in the market.

Mr. Davis stated that he would discuss the issue with both the actuary and legal counsel.

Ms. Coskey asked what would be the opportunity to change the policy.

Mike Monaco replied that rules are embodied in the city’s municipal code. There is no legal reason that could not be changed to something more lenient and/or liberal for buy-backs, i.e., first two years approach.

Mr. Monaco said that the question is what the actuaries might think about how much risk the system is taking at buying back at relatively lower costs. Is there some tipping point built into this and not giving too much opportunity by going retroactively for a large benefit for some small amount of retroactive payment. We will need information from the actuaries and it would require ordinances revisions to make the change.

Mr. Burgess stated he agreed with Ms. Coskey and asked staff to look at it.

**Executive Session**

The Board of Directors entered into Executive Session at 10:22 a.m. to discuss a personnel issue with Steve Boyd.

Executive Session was closed and the Board of Administration meeting re-entered regular session at 10:35 a.m.

**Adjourn Meeting**

The meeting was adjourned at 10:35 a.m.