



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

Minutes, Thursday, March 10, 2016

- Board Members Present:** Tim Burgess, Glen Lee, Jean Becker, Lou Walter (conference call), Robert Harvey, Jr., Sherri Crawford, Susan Coskey (arrived at 9:10 a.m.)
- SCERS Staff Present:** Ken Nakatsu, Jeff Davis, Jason Malinowski, Tony Smith, Jill Johnson, Cecelia Chen, Nina Melencio
- Others Present:** Carlton Seu (Seattle Attorney's Office), Mike Monaco (Song Mondress Law Firm), Kate Moore (SDHR), James Warren (SDOT), Heather Day (Friends of the Earth), George Emerson (FAS), Tom Kirn (FAS), Nate Van Duzer (Office of CM Burgess)

Call to Order

Tim Burgess, Committee Chair, called the meeting to order at 9:00 a.m.

Public Comment:

There was public comment.

Heather Day stated that she works for the Community Alliance for Global Justice and is speaking today on behalf of Friends of the Earth who have member groups in 75 countries.

Ms. Day said that the issue she wanted to bring attention to was palm oil which is in about half of the processed food on shelves and is the cause of rainforest destruction today.

Dimensional Fund Advisors (DFA) is one of the largest holders of palm oil growers and traders in the world and they also manage SCERS's funds. She stated that DFA's rapid expansion is leading to massive rainforest destruction. Sixteen million acres of forest are lost per year.

Ms. Day said that SCERS has a unique opportunity to engage in the solution based on Friends of the Earth's Four Pillars of Responsibility for Deforestation-Free Investment:

1. Ask DFA to disclosure their exposure to deforestation through palm oil.
2. Commit to stopping deforestation.
3. Exclude from our investments companies that fail to meet the standards of this commitment.
4. Repair damage by supporting companies that restore ecological damage.

Administrative Consent Agenda

Provided in the Retirement board packet were the minutes from the February 11, 2016 Retirement Board regular meeting.

The following items represent normal expenses and nothing extraordinary:

Service	\$12,823,875.96
Beneficiary	\$ 921,508.34
Disability	\$ <u>76,605.21</u>
Pension Payroll – PPE February 2016	\$13,821,989.51
Office Payroll – PPE February 9 and 23, 2016	\$ 194,567.27
Vouchers Processed – February 2016	
• Expert and Consultant Services	\$ 381,952.65
• Investment Management Fees	\$ 59,418.31
• Interdepartmental Charges	\$ 127,016.14
• Miscellaneous	\$ 42,649.59

Immediate Withdrawals of Contributions for the month of February 2016:

MEMBER	Ret #	Dept	Position
Aldridge, Anthony	44247	DPD	Admin Spec II
Bennett, Ashley A	52461	City Light	Pwr Analyst
Hall, Jerry D.	31727	City Light	Mat Suplr-Asg Leo/Pdm/Hb
Hall, Jerry D.	31727	City Light	Mat Suplr-Asg Leo/Pdm/Hb
Hernandez, Kellie	34136	ESD	Warehouser, Sr
Hicklin, Anita A	53252	Police	Latent Print Examiner
Hutson, Willie D.	53740	Police	Police Comms Dispatcher I
Jordan, Lisa A.	52254	Library	Page
Video, Frank	48776	Legislative	Legislative Assistant
Dewalt, Malachi L.	48232	Public Utility	Laborer
Harber, Jason M.	52199	Library	Events Svcs Spec
Loretta, Donna C.	44297	Library	Librarian
Medlock, Jonathan P.	51237	City Light	Engineering Aide

Withdrawals for a total of: \$461,646.73

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
Anderson, Jacqueliene P	1/26/2016	66	10	337.21	FAS	Accountant, Prin
Andrews, Denise M	1/12/2016	57	11	327.37	Vested	Manager2, Utils
Barton, Peter T	1/9/2016	64	10	43.96	City Light	Civil Engr, Sr
Beaumont, Victoria G	1/13/2016	61	36	182.16	PublicUtil	StratAdvsr2, General Govt
Carr, Michelle L	1/13/2016	72	15	295.91	Police	Identification Data Spec
Chilstrom, Hariana C	12/16/2015	68	9	259.18	Parks Dept	Naturalist



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Clark,Marjorie	1/13/2016	66	9	338.49	LegCty Cncl	Admin Spec II
Dickinson,James S	1/20/2016	62	22	143.44	City Light	Mat Suplr-Asg Leo/Pdm/Hb
Drain,Dianne M	2/27/2016	58	22	236.64	Vested	Parking Enf Ofcr
Entwisle,Loretta J	1/27/2016	67	24	8.22	Police	Admin Spec II-BU
Fox,Frankie L	1/27/2016	58	34	190.89	FIRE	Admin Spec III-BU
Godden,Jean H	1/1/2016	84	12	0.96	LegCty Cncl	Councilmember
Goodlett,Martha M	1/4/2016	58	9	87.19	Vested	Plng&Dev Spec II
Grohs,Kenneth A	1/6/2016	62	19	355.21	City Light	Info Technol Prof A,Exempt
Hildahl,Dave R	1/15/2016	53	24	31.29	PublicUtil	Civil Engrng Spec,Assoc
Hill,Lynn Y	1/5/2016	57	18	119.75	Vested	Civil Engr,Assoc
Holt,Peggy L	1/27/2016	62	16	114.29	FIRE	Admin Spec III-BU
Horne,Tom	1/27/2016	62	24	211.17	Library	Head of Techl&Coll Svcs
Kaiser,Barry H	1/13/2016	62	31	353.82	City Light	Line C CC
Kennedy,Beverly A	1/13/2016	62	7	41.95	SDCI	Info Technol Prof B-BU
Kimbrough,Donna L	1/9/2016	67	4	166	Vested	
Lea,Richard G	1/27/2016	62	10	276.6	PublicUtil	Truck Drvr,Heavy
Licata,Nicholas J	1/1/2016	68	17	364.58	Leg CtyCncl	Councilmember
Meredith,Richard L	1/1/2016	55	19	4.19	Vested	Manager3,Engrng&Plans Rev
Modrell,Patrick H	1/27/2016	67	28	238.5	City Light	Prot&Cntrl Elctn II
Mueller,Karen J	1/7/2016	64	27	98.07	PublicUtil	Info Technol Prof C-BU
Munger,Lorie J	1/27/2016	55	34	155.02	SDOT	Manager2,Engrng&Plans Rev
Nguyen,Vien T	1/2/2016	65	11	197.4	Library	Janitor-Library
Nishi,Rick L	1/27/2016	58	30	55.06	Parks Dept	Manager3,Engrng&Plans Rev
Oliver,Steven F	1/27/2016	62	10	153.11	PublicUtil	Util Act Rep Supv II
Phan,Slade	1/6/2016	68	10	43.07	Parks Dept	Laborer
Rasmussen,Thomas M	1/1/2016	68	29	63.98	LegCty Cncl	Councilmember
Rmah,Blot	1/8/2016	62	35	309.22	City Light	Meter Elctn Working CC
Scannell,Joel F	1/7/2016	67	14	233.55	Library	Library Assoc II
Shiferaw,Muluwork J	1/1/2016	61	28	177.9	KC	ESD
Sprinkle,Helen	1/27/2016	56	26	359.69	PublicUtil	Util Act Rep II
Sugimura,Diane M	1/5/2016	69	37	119.22	Exec Dept	Executive3 *
Thomson,Jennifer E	1/8/2016	66	9	69.31	Parks Dept	Admin Support Asst-BU
Trolio,Thomas J	1/27/2016	66	19	182.55	Human Svcs	Human Svcs Prgm Supv,Sr
Wilkins,Robert L	1/13/2016	58	32	39.68	Parks Dept	Rec Cntr Coord

For the month of February 2016: 58 new Members entered the System, 40 terminations, 40 Members retired in the System, 9 Members removed (\$15,813.91), 3 D/E Option, 1 F Option, and 1 over 60% benefit.

Motion: Upon motion by Tim Burgess, seconded by Robert Harvey, Jr., the Board of Administration accepted the Administrative Consent Agenda. The motion was passed unanimously (6-0).

Investment Advisory Committee (IAC) 2015 Annual Report

Joseph Boateng, IAC Chair, presented the 2015 IAC Annual Report.

Mr. Boateng stated that the IAC met four times in 2015 and IAC members provided input into SCERS's revised investment policy, ESG positive action strategy, and the revised asset liability study. The IAC continues to support action in that direction by integrating ESG issues into the investment process.

Mr. Boateng said that a key revision was changing the assumed rate of return from 7.75% to 7.5% which is in line with SCERS's peer groups. Mr. Boateng said that the plan is being positioned for better performance and the IAC supports the actions taken thus far.

2016 IAC recommendations:

1. SCERS should continue to evaluate the impact of achieving a return that is likely in the near term, to be less than the assumed rate of return (7.5% annualized) given the low return environment that is being experienced globally.
2. SCERS should continue to study items such as payments to vendors and compensation of plan fiduciaries (investment managers) for efficiencies, especially in a lower return environment.
3. SCERS should continue to progress in its positive action strategy regarding ESG issues including corporate engagement, integrating climate risk into SCERS's investment process and pursuing, as appropriate, investments that are expected to produce investment results consistent with SCERS's fiduciary responsibility to its members.
4. SCERS should continue to explore ways in which SCERS can extract more value from the services offered by consultants and other vendors.
5. SCERS should change the reporting date of the IAC's annual report to March 31. The end of January doesn't allow comprehensive review of full calendar year performance.

Mr. Walter asked if the IAC was recommending delaying the annual report so that 4th quarter can be captured.

Mr. Boateng replied that that was the IAC's recommendation. The IAC wants to be able to capture the entire year (January 1-December 31). The current annual report looks at performance through September 30th and the Board will be able to look at the true value if the annual report were delayed.

Jeff Davis stated that rather than changing the fiscal year, staff has had some conversation with CliftonLarsonAllen to capture liquid assets on part of the year end close.

Jason Malinowski added that the RCW requires that the IAC's Annual Report be delivered by January 31st.

Mr. Burgess asked if the annual report was regulated by state statute.

Mike Monaco replied that the state statute does regulate the annual report, although we can look at a separate report that is more substantive on performance. He stated that SCERS would be in compliance with what is required by statute, but also have a more full report on these issues.

Mr. Nakatsu confirmed that the letter of the law does require the annual report to be submitted by January 31st.



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Mr. Monaco discussed having an initial report that was more abbreviated with a follow-up after January 31st.

Mr. Nakatsu stated that the advisory committee has been exceptionally helpful to the Board and the staff, collectively and individually. SCERS relies on IAC members Mr. Boateng, Dwight McRae, and Alan Hess. They are a valuable asset to SCERS.

Mr. Nakatsu said that he concurs with the concerns raised by the IAC. The experience study is completed every four years and the next one is due in 2018. That would be an appropriate time to review the expected rate of return in a 30 year period of time.

Robert Harvey, Jr. stated that he suggested SCERS begin with the budget process to look at controlling expenses of fiduciaries.

Motion: Upon motion by Tim Burgess, seconded by Jean Becker, the Board of Administration accepted the Investment Advisory Committee 2015 Annual Report. The motion passed unanimously (7-0).

Executive Director Recruitment

Executive Session

The Board of Directors entered into Executive Session at 9:17 a.m. for appropriately 30 minutes to discuss a personnel matter for recruitment of SCERS's Executive Director.

Executive Session was closed and the Board of Administration meeting re-entered regular session at 9:40 a.m.

Motion: Upon motion by Tim Burgess, seconded by Susan Coskey, the Board of Administration authorized an offer of employment for the Seattle City Employees' Retirement System Executive Director position at the Executive 4 salary range (\$135,490 on the low-end and \$223,562 on the high-end) contingent upon completion of background checks to the Board's satisfaction. The motion passed unanimously (7-0).

ESG Update

Jason Malinowski and Jill Johnson presented the ESG Update for first quarter 2016.

Mr. Malinowski first reviewed the NEPC report presented at the February Investment Committee meeting. He stated that NEPC remains supportive of SCERS's positive strategies and continues to be supportive of integrating ESG in the decision-making process rather than going the "impact investing" route.

Ms. Johnson reported that staff has been monitoring industry events. A senate bill was passed in California that required CalSTRS and CalPERS to divest from thermal coal by 2017 unless their boards determine that it is inconsistent with their fiduciary responsibilities. The bill also provides indemnification of the boards.

In February 2016, CalSTRS stated that they will divest from four thermal coal companies (Cloud Peak Energy, Hallador Energy Company, Peabody Energy Corporation, and Westmoreland Coal Company) which is 0.0008% of their \$180B plan (\$1.5M). SCERS does not have any direct investments in these four companies.

CalPERS is pursuing engagement with thermal coal companies rather than divestment at this time and have updated their Investment Policy regarding divestment requests to address situations such as that made in SB 185.

In December 2015, San Francisco City and County Employees' Retirement System approved a motion to "prudently divest" from thermal coal and "prudently reinvest" in renewables. Previously, the board approved a motion to invest \$100M (0.5% of total assets) in an equity fossil fuel free index fund. These motions have not been fully implemented.

Mr. Malinowski reviewed the membership organization activity for the first quarter.

In January 2016, Mr. Malinowski attended three events in New York City:

1. Chief Investment Officer round table which was attended by 10 large US public pensions plans with Seattle and San Francisco being the smallest of the plans. Mr. Malinowski stated there was an interesting discussion on how most plans were integrating ESG in their decision making process. A couple of attendees including one pension plan, NY State, were looking at low carbon strategies. They feel that those fossil fuel based companies will underperform. Renewable infrastructure is the most attractive area for sustainability as opposed to clean tech or green bonds. One comment was that there is a lot of competition for wind and solar types of investments.
2. INCR Semiannual Meeting included a panel discussion on the Department of Labor (DOL) guidance on ESG. DOL has essentially reverted to a previous guidance that they had provided in the late 90s. If ESG impacts have economic merits, it can and should be considered. Previously there was an implied higher standard. SCERS has been following that perspective all along. Carbon foot printing was also discussed. It is an analysis to understand the carbon footprint that is created based on a company's investments.
3. Investor Summit on Climate Risk occurred at the United Nations. Speakers included Ban Ki-Moon (UN Secretary-General), Christiana Figueres (Executive Secretary, UN Framework Convention on Climate Change), Michael Bloomberg, and Al Gore. Every speaker mentioned that having a carbon price is essential to combatting climate change. Investments in renewables are dramatically increasing. Emerging countries are where the climate change battle will be fought, particularly India. India's only natural energy resource is coal. They are unable to finance renewables. There was a discussion on how investors can change course of action in India.

Ms. Johnson stated that she participates in two INCR monthly working groups: Carbon Asset Risk Working Group and the Policy Working Group. The Carbon Asset Risk Working Group focuses on tactics for engaging fossil fuel energy companies. The Policy Working Group focuses on engaging federal and state policy makers on key climate, energy, and sustainability issues.

Mr. Malinowski said that going forward they will identify avenues to follow engagement or positive action.

Since February 2015, SCERS staff has participated in 48 events, meetings and calls devoted to ESG to stay abreast in the marketplace and learn best practices.

Mr. Malinowski stated that Mercer was engaged to produce an ESG-focused report on Brookfield Infrastructure Fund III which was recommended by the Investment Committee in February and is now under consideration by the Board on today's agenda for approval.

Staff and NEPC are recommending a commitment of up to \$15M to Brookfield Infrastructure III based on economic benefits. The strategy is also expected to have a 35% allocation to renewable power investments, mostly in hydroelectric facilities and wind farms.

Mr. Harvey asked about the previous public comment on palm oil. He asked if there was anything that needed to be done.



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Mr. Malinowski replied that Friends of the Earth have not filed an ESG request which is required by SCERS's ESG policy. Staff and representatives from Friends of the Earth have had a number of conversations. Friends of the Earth are concerned with DFA. SCERS is invested in DFA's international small cap. The palm oil issue is relevant to SE Asia and SCERS does not have exposure to that strategy in DFA.

Mr. Malinowski said that DFA has signed on to the UN Principles of Responsible investments which have certain requirements. If DFA is not in compliance, SCERS is open to approaching them about those issues.

Ken Nakatsu stated that staff informed Friends of the Earth about the requirements of the ESG policy. At this point, they have only chosen to come to the Board to present their concerns.

The ESG policy is up for review this year at which time it can be reviewed for any changes that may be needed.

Mike Monaco stated that the way the ESG policy is written, SCERS would need to receive a proposal that contains reasonable analysis and the proposed change would need to fit into the Board's fiduciary responsibility (tell us how we can do this within our fiduciary responsibility and then we will look at it). A written request without reasonable analysis would not be sufficient.

Mr. Burgess asked Mr. Malinowski to explain the Market Performance table that is on page 20 of the documents.

Mr. Malinowski replied that the table was added as a request of then Board Chair Nick Licata who wanted staff to compare performance of the broad US equity markets in various time periods to that if all energy companies were excluded or all fossil fuel companies were excluded. The table also looks at volatility if these sectors were to be excluded.

Ms. Becker asked if these results were not risk adjusted. Mr. Malinowski replied that she was correct since return and risk are reported separately.

Mr. Nakatsu said that when NEPC and staff reported last month, there were several other reasons given about why divestiture was not appropriate.

Susan Coskey asked to help her understand the table and staff's conclusions.

Mr. Malinowski stated that the table is showing what the performance would have been if SCERS had excluded energy and fossil fuels. It shows that SCERS would have done better over more recent periods of time if it had divested from energy. Over the long period (since 1990), return would have been the same but divesting would have led to higher risk.

Ms. Coskey asked if the performance table showing the strong recent performance of a fossil fuel divested portfolio would be the basis for an investment action.

Mr. Malinowski responded that it would not as past performance is not an indicator of future results, particularly over such short time periods.

There was discussion amongst the Board members and a request that the performance table be removed from future ESG updates.

Mr. Harvey added that whenever SCERS makes a decision on past performance that is when SCERS is in trouble.

Administrative Committee Report –February 25, 2016

Jean Becker reported on the February 25, 2016 Administrative Committee (AC) meeting.

Ms. Becker stated that the AC discussed the Board of Administration self-evaluation survey. She said the AC has a good survey instrument which covers a fair amount. A consultant, Steve Boyd of MacDonald Boyd, has been retained to administer the survey, collect data, and evaluate the responses. Mr. Boyd will report the results at an Administrative Committee meeting and do follow-up.

Ms. Coskey asked what the purpose of the survey was. Ms. Becker replied that it is to survey board members on how well the board manages its business processes. The survey is not about any individual board member or individual performance. It is about the work the board does as a whole.

(10:18 – Sherri Crawford left the meeting.)

Investment Committee Report – February 25, 2016

Mr. Malinowski stated that performance in January 2016 was negative largely due to concerns of a slowdown in economic growth. The year to date performance is expected to be down around 2%.

Infrastructure Manager Selection

Mr. Malinowski spoke to the Infrastructure Manager selection recommendation. He said that staff and NEPC were recommending a commitment of up to \$15M to Brookfield Infrastructure III. It is a closed end fund that is geographically and sector diversified. SCERS had previously committed to a Brookfield Real Estate fund. Included in the board packet is a conflicts of interest form that K&L Gates has helped staff develop. This form will be included on an ongoing basis when staff and NEPC are recommending managers.

Motion: Upon motion of Robert Harvey, Jr. seconded by Glen Lee, the Board of Administration accepted the Investment Committee's recommendation to commit up to \$15 million in Brookfield Infrastructure Fund III, pending satisfactory legal review. The motion passed unanimously (6-0).

BlackRock Fund of Hedge Funds Update

Mr. Malinowski stated that SCERS has a \$60M investment in Black Rock's fund of hedge funds strategy. Staff and NEPC are recommending a full redemption due to the two co-heads of the fund of hedge funds team leaving BlackRock. One of the co-heads was a co-founder, portfolio manager and chief investment officer.

Mr. Malinowski said that staff would redeem on June 30, 2016.

Mr. Burgess asked what happens to the funds after redemption.

Mr. Malinowski responded that SCERS will probably get the cash sometime in August 2016. George Emerson and Mr. Malinowski have been looking at Diversifying Strategies managers and they are hoping to come back with a recommendation by the end of the summer. In the meantime, the overlay program will be used to invest cash and maintain the same portfolio risk.



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Mr. Lee commented that the overlay program has proven to be a helpful device for SCERS.

Motion: Upon motion of Glen Lee, seconded by Lou Walter, the Board of Administration accepted the Investment Committee's recommendation to redeem SCERS's full investment in the BlackRock Fund of Hedge Funds Strategy. The motion passed unanimously (6-0).

Executive Director Report

Mr. Nakatsu stated that after today's board meeting, the trustee election notice will be added to the SCERS website and a notice will be on member annual statements. The candidate filing period will begin after the April board meeting and be open for two weeks. The election will occur in May with the certified results presented to the board at its June 9, 2016 meeting.

Mr. Davis stated that staff and ViTech have completed the review of the 1,300 requirements for the Pension Administration System (PAS). Next month they will begin locking down the schedule for the next three years.

Mr. Davis said staff had their first site visit for the annual audit from CliftonLarsonAllen. Representatives from CliftonLarsonAllen will be back in April 2016 and staff is on track for them to present the results of the audit to the Board at the June 2016 board meeting.

He stated that the member services department reached a milestone; they have 67 open requests for retirement estimate. They have never been down to double digits before. Also, turnaround time is down to three (3) weeks. Mr. Davis stated that staff is doing a great job.

There is nothing new in the Work Plan.

Mr. Malinowski stated that the Dashboard has been updated with information for investments through the end of the year. The 2015 performance was approximately flat which is consistent with SCERS's peer group. But it is under the assumed rate of return.

Adjourn Meeting – The meeting was adjourned at 10:30 a.m.