



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

Minutes, Thursday, September 8, 2016

Board Members Present: Tim Burgess (Chair), Lou Walter (conference call), Jean Becker, Glen Lee (arrived at 9:14 a.m.), Sherri Crawford, Susan Coskey (arrived at 9:07 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), Tom Kirn (CBO), George Emerson (FAS),

Call to Order:

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

Public Comment:

There was no public comment.

Administrative Consent Agenda:

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

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

Service	\$13,145,713.26
Beneficiary	934,925.81
Disability	<u>76,147.44</u>
Pension Payroll – PPE August 2016	\$14,156,786.51
Office Payroll – PPE August 9 and 23, 2016	\$ 207,528.26
Vouchers Processed* – August 2016	
• Expert and Consultant Services	\$ 109,134.45
• Investment Management Fees	\$ 85,561.20
• Interdepartmental Charges	\$ 126,650.63
• Miscellaneous	\$ 42,824.70
•	

*August 2016 Financial statement adjustments close on 9/9/2016. Information provided were what the Accounting Section had to date.

Immediate Withdrawals of Contributions for the month of August 2016:

NAME	Ret #	Dept Name	Position
Alexander, Judith E	53569	Parks Dept	Cashier
Aparis, Eileen Y	47346	HSD	Youth Emp&Training
Baebler, Scott A	52626	Sea Center	Manager1, CSP&P
Barrett, Travis T	53306	FieldOps-South	Lineworker
BORST, BRAD A	52274	Library	Dev Ofcr
Chase, Stephanie D	51970	Library	Dir, Public Svs
Daniel, Florida	34986	beneficiary	beneficiary
Fotheringham, Tyler W	50638	City Light	Line C CC
GALVAN, MARIBEL	53720	Human Svcs	Counslr
Goldfinger, Joshua D	54982	Human Svcs	PrjFunds & Agreements
Haas, Clarissa M	50148	Ravenna-Eck CC	Rec Attendant
Hall, Jeffrey M	51547	Parks Dept	Util Laborer
Hartshorne, Sheila F	52439	FAS	Mgmt Sys Analyst, Asst
Harvey, Teresa L	52127	Info Tech Ops	Mgmt Sys Analyst, Sr
Hoard, Sydney L	46726	Seattle Center	Usher
Hopkins, Renee J	44908	Police Foundation	StrAdv2, Gen Govt
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Marx, Michelle L	53225	SDOT	StraAdvsr1
Otis, Jennifer M	52809	PublicUtil	Civil Engr, Assoc
Price, Tiffany L	52703	City Light	Info Tech Prof B-BU
Ransaw, Tomica N	44503	PublicUtil	Admin Spec III-BU
Richter, Michael J	52839	Human Svcs	Plng&Dev Spec, Sr
Robel, Charles E	31695	beneficiary	beneficiary
Robel, David W	31695	beneficiary	beneficiary
Robinson, Christopher A	48588	Seattle Center	Laborer
Sanchez, Maureen E	54206	Parks Dept	Envrmtl Analyst, Sr
Smith, Rowena P	52118	SDOT	Civil Engr, Assoc
Southard, Ryan M	52117	City Light	Plng&Dev Spec, Sr
Stebbins, Micki O	54390	City Light	Lineworker
Teigen, Mons P	52535	N. Teen Life Center	Rec Leader
Truong, Phuonganh T	51896	Shelving Operations	Page
Vernig, John R	50762	Parks Dept	Maint Aide
White, Emily M	54055	CBO	Admin Spec III
Wortman, Thomas M	53400	Police	Latent Print Examiner

Withdrawals for a total of: \$840,827.19

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
Aana,Leialoha M	7/2/2016	56	25	226.25	Police	Pol Comms Dispatcher I
Anderson,Kathleen B	7/8/2016	63	9	20.38	SeaTech	Info Technol Prof A,Exempt
Batayola,Felipe V	7/6/2016	66	27	316	City Light	Elctn-Con CC
Bennett,Stephanie J	7/8/2016	70	8	328.64	Law Dept	Admin Spec II
Bradish,Thomas M	7/5/2016	63	29	364.3	City Light	Rights-Of-Way Maint Wkr
Curry,Stephen C	7/2/2016	73	46	101	#N/A	#N/A
Dunlap,Margaret J	7/27/2016	66	10	11.89	Vested	Rec Cntr Coord
Esterly,Janice	7/6/2016	71	10	87.14	Muni Court	Prob Counslr-Asg Pers Recog
Forch Jr,Bobby T	7/14/2016	60	24	179.21	Vested	Manager2,Engrng&Plans Rev
Gil,Ernesto	7/5/2016	52	26	36.2	SDOT	Truck Drvr,Heavy
Gordon,Karen S	7/2/2016	60	32	173.5	NeighbDept	Manager2,General Govt
Heppner,Dale C	7/13/2016	69	44	53.49	SDOT	Bridge Op
Jacobson Jr,Frank A	7/13/2016	66	44	204.87	PublicUtil	Auto Engr,Sr
Jessen,Larry	7/6/2016	70	39	177.07	SDCI	Elecl Inspector,Sr(Expert)
Johnson,Carol A	7/21/2016	62	9	359.75	Vested	Camp Svc Aide,Sr
Kuwamoto,JoEllen	7/13/2016	59	30	286.06	CBO	StratAdvsr2
Manhas,Rajinder S	7/1/2016	68	8	51.74	Vested	Executive3
Marple,Teresa M	7/6/2016	61	19	357.83	Police	Pol Comms Dispatcher II
Mitchell,Katie A	7/13/2016	68	34	305	Parks Dept	Carpenter,Sr
Moscou,Jacqueline D	7/29/2016	64	13	75.17	Vested	Publc/Cultural Prgms Spec,Sr
O'Brien,Marion R. N.	7/30/2016	65	10	354.43	Vested	#N/A
Pageler,Margaret A	7/1/2016	75	11	184	Vested	Councilmember
Pfeiffer,Steven D	7/6/2016	65	31	187.78	SDCI	StratAdvsr2,Engrng&Plans Rev
Plumb,Terrance M	7/9/2016	68	15	336.33	SDOT	Capital Prjts Coord,Asst
Prieto,Manuel P	7/2/2016	60	15	271.02	Sea Center	Carpenter
Rood,Timothy W	7/5/2016	66	19	20.11	SDOT	Transp Plnr,Assoc
Spexarth,Kristen C	7/6/2016	68	11	243.33	Parks Dept	Gardener
Thompson,Bonnie E	7/6/2016	67	7	320.61	Parks Dept	Personnel Spec,Asst
Traxler,Maureen A	7/22/2016	63	26	186.35	SDCI	StratAdvsr2,Engrng&Plans Rev
Webb,Kim J	7/2/2016	61	26	163.62	FAS	Spay&Neuter Tech
Wheeler,Ronald W	7/7/2016	62	12	243.5	Vested	#N/A
Whittemore,Ronald J	7/19/2016	66	14	227.95	Vested	Civil Engrng Spec Supv

For the month of August 2016: 53 new Members entered the System, 50 terminations, 32 Members retired in the System, 16 Members removed (\$29,480.14), 3 D/E Option, 1 F Option, and 2 over 60% benefit.

Bold entries (if any) above indicate 2x match.

Motion: Upon motion by Lou Walter, seconded by Jean Becker, the Board of Administration accepted and approved the Administrative Consent Agenda. The motion passed unanimously (4-0).

ESG Quarterly Report

Jill Johnson and Jason Malinowski reported on the third quarter 2016 Environmental, Social, and Governance (ESG) update.

Mr. Malinowski reported that the Seattle Human Rights Commission (SHRC) passed a resolution calling on SCERS to “divest from companies that profit from or supply a product directly or indirectly used in war crimes or crimes against humanity, or create a product to allow a state body to commit a war crime or crime against humanity, or directly commit a crime against humanity.” Mr. Malinowski stated that SCERS has not received a formal proposal as required by the ESG policy.

Mr. Malinowski also reported that Friends of the Earth had sent a second letter to SCERS reiterating their concerns with Dimensional Fund Advisors (DFA) investments in palm oil companies. They did not formally send a proposal to take any specific action but indicated that DFA was not adhering to the Principles for Responsible Investing (PRI). DFA disagrees and SCERS staff’s review supported DFA.

In industry developments, CalSTRS has decided to commit \$2.5 billion to a low carbon index strategy within their public equity portfolio.

(9:07 a.m. – Susan Coskey arrived)

Ms. Johnson reported on SCERS positive action strategy. She stated that SCERS had joined other members of Ceres’ Investor Network on Climate Risk in letters to the Securities and Exchange Commission, asking them to improve their enforcement of climate risk disclosure.

Ms. Johnson stated that she and Mr. Malinowski met with Michelle Edkins, BlackRock’s Head of Investment Stewardship, to learn more about BlackRock’s corporate governance approach and inquire about the apparent inconsistency between BlackRock’s proxy voting record and comments by their CEO, Larry Fink, that ESG considerations are important to generate sustainable returns. Ms. Johnson and Mr. Malinowski also met with Rahki Kumar, State Street Global Advisor’s Head of Corporate Governance to learn about State Street’s proxy voting and engagement practices.

Mr. Malinowski introduced the Institutional Shareholder Services (ISS) Governance Risk Report for the reporting period from April 1, 2016 to June 30, 2016. SCERS utilizes the ISS report to track how its managers are voting proxies in its public equity separate accounts and commingled fund investments.

Ms. Johnson reviewed the reports for SCERS’s two passive managers, Rhumblin and BlackRock.

Ms. Johnson said that Rhumblin manages a separate account for SCERS, which allows SCERS to direct the manager on how to vote proxies. The ISS report shows that Rhumblin’s proxy voting is consistent with the ISS Public Funds Policy that SCERS adopted in 2015 to be more supportive of ESG considerations.

(9:14 a.m. Glen Lee arrived)

Ms. Johnson said that SCERS has an investment in a BlackRock commingled fund, so SCERS does not have a say on how they vote but does have an interest in how they do so. The ISS report shows that BlackRock generally votes with the management of companies and has been less supportive of ESG considerations than either the ISS Public Fund policy or ISS Standard policy. Ms. Johnson gave an example of recent shareholder proposals at ExxonMobil and Chevron that would have required them to conduct climate change stress tests. BlackRock voted against both proposals, which were ultimately unsuccessful. ISS and State Street Global Advisors both supported the shareholder proposals at ExxonMobil and Chevron.

Mr. Burgess asked if there would be risk introduced by moving from BlackRock to another manager and if it would take a long time.

Mr. Malinowski replied that there would be little risk and it would take approximately 3 months. Mr. Burgess asked about the cost. Mr. Malinowski responded that the fees would be comparable to other managers.

Ms. Becker asked about the size of other managers. Mr. Malinowski replied that the passive equity industry is dominated by BlackRock, Vanguard and State Street and all are of similar size.

Mr. Burgess asked when SCERS hired BlackRock. Mr. Smith responded that this occurred in 2012.

Mr. Malinowski asked if the Board wanted staff to explore alternatives to BlackRock.

Mr. Burgess responded that he personally felt the Board should consider it if there was no risk or no cost and assuming no burden, although he is not advocating for a particular manager.

Ms. Johnson said that staff is still monitoring BlackRock. Recently, there was an article in which BlackRock abstained from voting for an ExxonMobil director, which staff sees as a step in the right direction.

Mr. Burgess asked staff to bring for the December ESG update a description of why BlackRock was chosen in 2012 over the other managers and if that decision should be reevaluated given ESG considerations. Ms. Coskey also requested that staff bring copies of the ISS policies.

The Board went back to the discussion of the Seattle Human Rights Commission (SHRC) ESG request. Mr. Burgess asked if SHRC was aware of the formal procedure to have the SCERS Board consider a proposed action. Mr. Lee replied that his office sent SHRC both the SCERS ESG policy and a description of the process for having the Mayor's office examine an issue.

Mr. Seu stated that he read through the SHRC resolution recently and that SHRC was cognizant of SCERS's ESG policy.

Investment Committee Report – August 25, 2016

Mr. Malinowski reported that there were no motions at the August 25, 2016 Investment Committee meeting.

NEPC provided two different educational segments. One on SCERS's investment performance and a second briefing on manager cost effectiveness and fees.

Mr. Malinowski stated while SCERS's investment performance over the past 10 years is below our actuarial assumed rate of investment return, that is the case for many pension funds and that, relative to our peers, the trend is positive. For the past 10 years, SCERS's performance is in the lowest decile. For the past 3-5 years, our performance has risen to the median.

Mr. Burgess said that SCERS's performance over the past three years has improved significantly. Mr. Malinowski acknowledged the improvement but cautioned that we (and many others) are falling below our assumed rate of return of 7.5%. He said that over the near-term future, that performance is expected to be lower than the recent past and not achieve the actuarial assumed rate of return.

Mr. Burgess stated that the conundrum we are in is if we lower the assumed rate of return, that it has a dramatic effect on the actuarial Annual Required Contribution (ARC) and the City's budget. If we don't, then we might be underestimating our future pension liability.

Mr. Lee questioned whether this is the case, particularly over the long term. He said that NEPC expects investment returns over the next 6-7 years to be challenging, but understood that the following 23 years are expected to be better. He understood that over 30 years a 7.5% assumed rate of return is reasonable, but in any event, can be examined when the next actuarial experience study is done in 2018.

Mr. Malinowski also mentioned that NEPC annually revises its capital market expectations and that we will review them again in February.

Mr. Davis mentioned that the assumed rate of return used by pension funds has been trending downward but that Milliman has indicated recently that SCERS's assumed rate of return is in the middle.

Mr. Malinowski said that NEPC also did a fee analysis for SCERS. The general observed that SCERS's overall fees tend to be lower than its other clients, although our fees are likely to increase because of increasing private fund investments in real estate, infrastructure, private equity and private credit. NEPC also cautioned that the lowest cost portfolio is not necessarily the best portfolio.

Executive Director Report

Mr. Nakatsu updated the Board on the Executive Director search. The job has been advertised on the City of Seattle website and the Alliance Resource Consulting, LLC website.

Some of the comments from Ms. Coskey and Ms. Becker were integrated in the job posting before it was advertised. As the Board requested, we have submitted a compensation review request for the three senior management positions in SCERS since we are in competition with foundations and endowments for staff. The Executive Director compensation will also be reviewed. The compensation report will be completed by the October 27, 2016 meeting with the Board and the recruiters.

Mr. Davis reported that operations staff has been busy with the normal work activities and with "sprints" for developmental work for the new Pension Administration System (PAS). Most recently, staff is focused on key projects such as the back-file conversion, imaging the physical files, and ensuring that all data is loaded properly into the new PAS. These ECM projects should be completed by the end of the year. Staff is also working on data cleanup.

Mr. Davis stated that the retirement estimates are creeping up a little due to the involvement of all staff working on the Pension Administration System implementation, peer auditing, and the new calculation tool. Peer auditing was done previously by Cynthia Scheiderer and Lindsay Reid. It will now be done by the retirement specialists which will free up Ms. Scheiderer and Ms. Reid for other responsibilities.

The 2015 Annual Report has been completed. A hard copy will be provided at the next board meeting. It has been uploaded to the retirement website.

The Office of Civil Rights will do a presentation to the Board at the November 10, 2016 meeting. Due to time constraints, they are unable to present on "implicit bias."

Adjourn Meeting

The meeting was adjourned at 10:16 a.m.

Susan Coskey, Board Secretary