



**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, June 9, 2016

BOARD MEMBERS PRESENT: Tim Burgess (Chair), Glen Lee, Jean Becker, Lou Walter, Robert Harvey, Jr. (arrived at 9:28 a.m.), Sherri Crawford, Susan Coskey

SCERS STAFF PRESENT: Ken Nakatsu, Jeff Davis, Jason Malinowski, Tony Smith, Jill Johnson, Nina Melencio

OTHERS PRESENT: Mike Monaco (Song Mondress Law Firm), Carlton Seu (Seattle City Attorney's Office), Bill Roach, John Masterjohn (ARSCE), James Warren, George Emerson (FAS), Nate Van Duzer (LEG)

Call to Order:

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

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

Public Comment:

Bill Roach stated that he is a proud 44 year member of the retirement system. He came today to the listen to the Environmental, Social, and Governance (ESG) Report amongst other things. He received an early copy of the report and noticed that a chart was missing. He stated that the chart compares performance of energy holdings SCERS has to non-energy holdings. Mr. Roach stated that piece is important for the Board to fulfill their fiduciary responsibilities. It speaks about the importance of maintaining investments. He stated he did not understand why it was not there and asked that it be put back for future reports.

Mr. Roach also spoke to the ESG policy that the Board will be considering. He stated that one section (A4) must not be considered. He asked what was the intent of the Board for a recently considered proposal to be considered duplicative. Mr. Roach asked if that section in the policy meant that a person could not come to the Board again. He stated that the Board has been very receptive to suggestions and he hoped that it did not mean that the Board was cutting off communication.

Mr. Burgess thanked Mr. Roach. There were no other public comments.

Administrative Consent Agenda

Minutes

Provided in the Retirement Board packet was the minutes from the May 12, 2016 Retirement Board regular meeting.

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

Service		\$13,061,295.41
	Beneficiary	945,359.68
	Disability	<u>75,185.23</u>
	Pension Payroll – PPE May 2016	\$14,081,840.32
	Office Payroll – PPE May 3, 17, and 31, 2016	\$ 300,411.26
	Vouchers Processed – May 2016	
	• Expert and Consultant Services	\$ 128,835.30
	• Investment Management Fees	\$ 39,058.87
	• Interdepartmental Charges	\$ 124,405.75
	• Miscellaneous	\$ 24,776.74

Immediate Withdrawals of Contributions for the month of May 2016:

MEMBER	Ret #	Dept Name	Position
Anderson,Pearl	53305	SDCI	Actg Tech II-BU
Axtel,Richard S	53931	Public Util	Mgmt Sysys Anlys, Sr
Bassett,Tasha L	38313	Public Util	Civil Engr Spec
Blackburn,Christopher C	53246	Public Util	Trng&Ed Coor Sr
Bowden,Brent D	52303	Law Dept	City Attorney Asst
Burrough,Bruce M	52859	Library	Janitor
Chan,Ashley R	52268	Executive Dept	Civil Rights Analyst
Combs,Pamela A	43373	City Light	Elec serv rep
Combs,Pamela A	43373	City Light	Elec serv rep
Cramer,Kari M	54458	Police	Pol Comms Dispatcher I
Crisanto,Cyrus G	54272	FAS	Auto Mechanic
Dimuzio,Meghan K	35788	City Light	Engr Res&Eval Supv
Ferrer,Tasha R	49876	FAS	Cust Svc Rep
Gallup,Wayne L	52386	SDOT	C. Engr Spec, Sr.
Gray,Alexander J	53584	SDOT	Mgmt Sysys Anlyst, Sr
Hahn,Peter E	51036	SDOT	Executive 4
Hardin,Joel C	54058	Parks Dept	Plumer
Herkes,Rebecca M	52914	SDOT	Civil Engr Asst 1
Holt,Kathleen U	51935	City Light	Pwr Analyst, Sr
Jackson II,Cleatious L	51398	Municipal Court	Plumber
Lee,Monica S	54204	SDCI	Admin Spec II-BU
Martin,Kimberly L	54211	Public Util	Util Act Rep Trne
Martin,Tracy A	48721	SDCI	Civil Engrng Spec,Sr
Montesa II,Jose Pro Manlapaz	51362	City Light	StratAdvsr3,Info Technol-BU
Robinson,Patrick T	50932	Sea Center	Stage Tech
Saul,Amanda M	35788	City Light	Engr Res&Eval Supv
Sharma,Shreya	51256	Human Svcs	Human Svcs Prgm Supv, Sr
Simmons,Paula R	46236	Police	Admin Spec I-BU
Trausch,John M	53872	City Light	StratAdvsr2
Watson,Treavion D	53562	Public Util	Gardener
Zapata,Armando L	31913	Parks Dept	Park Ranger

Withdrawals for a total of: \$1,017,890.25

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,Kenneth L	4/12/2016	62	25	73.42	FAS	Auto Mechanic
Bethea,Regena L	5/4/2016	61	22	276.55	SDOT	Admin Staff Anlyst
Billingsley,Dawn	5/3/2016	62	8	349.97	Vested	#N/A
Blanchard,Kathleen M	5/4/2016	60	26	83.1	Parks Dept	Gardener,Sr

Campau, Daniel N	5/4/2016	64	37	77.33	Parks Dept	Maint Laborer
Cobb, Jeffrey L	4/19/2016	61	34	345.64	Parks Dept	Truck Drvr
Collier, Sydney	5/4/2016	68	15	78.84	FAS	Auto Mechanic
Culleton, Roger S	4/13/2016	62	13	69.92	City Light	Civil Engrng Spec Supv
Guise, Eric S	4/7/2016	69	23	354.16	Human Svcs	Trng&Ed Coord
Harris, Donald M	4/15/2016	67	46	235.64	Parks Dept	Manager2, Exempt
Hume, Richard B	4/13/2016	62	29	360.28	Muni Court	Manager1, Exempt
Kerschner, Jeffrey M	5/4/2016	57	24	15.38	City Light	Generation Supv-BU
Kortz, Jane F	5/4/2016	67	26	102.26	CtyEmpRetr	Info Technol Prof B *
Lightfoot, Kevin D	5/4/2016	61	18	55.38	SDOT	Street Maint CC
Lupton, Rick N	5/4/2016	65	32	187.66	SDCI	StratAdvsr2, Engrng&Plans Rev
Malgren, John A	5/4/2016	63	39	289.48	Muni Court	Info Technol Prof B-BU
Maraire, Mazvita A	5/4/2016	54	20	228.12	Parks Dept	Rec Prgm Spec, Sr
Martin, Jon R	4/20/2016	65	30	200.47	Parks Dept	Parks Maint CC
Mateo, Joselito V	4/13/2016	65	24	214.57	PublicUtil	Wtr Quality Anlyst
Miller, Donna M	4/20/2016	67	36	94.4	Vested	Admin Spec III-BU
Price, Brenda L	5/3/2016	67	15	96.5	Muni Court	Admin Support Supv-MC
Symonds, Katherine M	5/4/2016	66	37	312.91	Muni Court	Prob Counsr I
Tonkyn, Christine A	4/20/2016	58	30	0.39	City Light	Strucl Pntr CC
Van Dan Acker, David J	5/3/2016	65	32	103.03	FAS	Auto Mechanic
Williamson, David A	5/4/2016	66	35	344.69	City Light	Cblspl-Net Area
Wilson, Richard F	5/4/2016	68	15	218.23	PublicUtil	Civil Engrng Spec, Asst III

For the month of May 2016: 100 new Members entered the System, 30 terminations, 26 Members retired in the System, 10 Members removed (\$19,502.15), 2 D/E Option, 3 F Option, and 5 over 60% benefit.

- Motion:** Upon motion by Tim Burgess, seconded by Glen Lee, the Board of Administration approved the June 9, 2016 Administrative Consent Agenda. The motion passed unanimously (6-0).
- Minutes of the May 12, 2016 Board Meeting
 - Ratification of the Retirement Payroll, Office Payroll, Other Payments and Withdrawals
 - Ratification of Service Retirements for the month of May 2016

Environmental, Social, and Governance (ESG) Update

Jill Johnson and Jason Malinowski reported on the second quarter 2016 ESG update.

Mr. Malinowski referenced Mr. Roach's statement during Public Comment regarding a missing table on the ESG report. The table referenced was the Market Performance table. Mr. Malinowski stated that there was a question during the March 10, 2016 Board meeting if the table would be the basis for an investment action. Mr. Malinowski responded that the Market Performance table would not be used for an investment action as past performance is not an indicator of future results, particularly over such short periods of time. The Board requested that the chart be removed from future ESG updates.

Mr. Malinowski proceeded with the ESG Report by stating that CalPERS indicated it had lost between \$3.8 and \$8 billion from their past divestments, mostly from tobacco and South Africa. CalPERS is looking at possibly reinvesting in tobacco.

On June 6, 2016, DC Divest announced that the Washington DC Retirement Board (DCRB) divested its directly held stock in fossil fuel companies although DCRB have not yet commented. This action is limited to its "separate accounts," which appear to be exclusively actively-managed.

Mr. Burgess asked if SCERS has directly held stocks.

Mr. Malinowski replied that SCERS does hold a portion of its stocks directly in separate accounts, but does not have any such accounts that are actively-managed.

Mr. Walter asked about the breakdown of CalPERS's divestment losses between tobacco and South Africa.

Mr. Malinowski replied that it is approximately 50/50. He understood that the magnitude of losses is leading them to explore reinvesting in tobacco.

Ms. Johnson stated that CalPERS has created a subcommittee to reconsider their divestment actions.

Ms. Coskey asked if a lawsuit was brought in California, would the boards be shielded from liability because they had fulfilled their fiduciary duties.

Mike Monaco replied that it might, but if it happened in Washington, there is no protection provided in state law.

Mr. Malinowski said that Wilshire Associates announced a program that is similar to Mercer's relative to educating boards and staff about climate change and its consequences for investors. In their paper, they stated that "the systemic nature of climate risk may make divestment an ineffective investment strategy for bringing about change and could actually introduce new risks and costs into an asset owner's portfolio." Although, they did state that divestment could be prudent if ownership of certain assets is incongruent with an asset owner's beliefs and mission, such as in the case of foundations and endowments.

Ms. Johnson stated that she attended the Council of Institutional Investors (CII) Spring Conference in March. Speakers and panelists spoke on ESG issues and takeaways from the Paris COP 21 agreement.

Ms. Johnson also mentioned that she participated in a call with one of SCERS's managers to question the inconsistency of their proxy voting track record with their CEO's public comments on the importance of ESG.

(9:28 a.m. - Robert Harvey, Jr. arrived)

Mr. Malinowski stated that there was a request from the Administrative Committee to review the positive actions related to ESG that SCERS has taken since February 2015. That information is listed on page 16-17 of the packet.

Mr. Lee said that it was an impressive body of work.

Ms. Becker stated that staff is mindful of appropriately incorporating ESG into our investment actions and that she applauded them for that.

Ms. Coskey thanked staff for clearly incorporating ESG into their work and being responsive. She said she feels that the Board is being well represented and appreciated their efforts. Ms. Coskey said that they have the Board's full support.

Administrative Committee Report – May 26, 2016

Appointment of Cathy Cao and Steve Hill to the Investment Advisory Committee (IAC)

Ken Nakatsu stated that there are currently three members on the Investment Advisory Committee (IAC) which is the required minimum. It is preferable to have a total of four or five IAC members, so a notice was placed on SCERS's website and we have sought new candidates. There were three (3) applicants; the Administrative Committee is recommending two of them. The resumes are in the packets.

Cathy Cao is a professor at Seattle University. Steve Hill was the former director of the Washington State Department of Retirement System and served on the Washington State Investment Board in that role.

Motion: Upon motion of Jean Becker, seconded by Lou Walter, the Board of Administration accepted the Administrative Committee's recommendation and appointed Cathy Cao and Steve Hill as members of the Investment Advisory Committee effective July 1, 2016. The motion passed unanimously (7-0).

Credit Interest Policy for Member Contributions

Mr. Nakatsu said for the past four years the Board has chosen not to grant an additional 0.25% on top of the U.S. Treasury Bond average from June to May of the prior year in determining the subsequent year's "credit interest" rate for members' contributions since 2011, as the Board's policy reflects as a target. There are two issues. First, it is confusing that the credit interest rate adopted annually by the Board is less than the target. Second, Milliman reflects that policy at the valuation study and, consequently, our actuarial valuation is slightly lower than it would be if the policy were revised to reflect recent past and probable future decisions of the Board. Staff recommends that the policy be revised to drop reference to an additional 0.25%.

Mr. Burgess stated we will have a motion, then discussion.

Mr. Walter said that he understands the pressure on the funding ratio. He stated that he is concerned that there will be future actions to lower the credit interest rate further. Mr. Walter would vote against the motion.

Ms. Coskey stated that she is also concerned with the motion and that she would feel differently if we did not require employees to participate in the retirement system. She does not consider it a fiduciary issue or health of the plan issue.

Motion: Upon motion of Jean Becker, seconded by Robert Harvey, Jr., the Board of Administration accepted the Administrative Committee's recommendation and adopted the revised Credit Interest Policy for Member Contributions. The motion passed 5-2 with Lou Walter and Susan Coskey voting against the recommendation.

Consideration for Environmental, Social, and Governance Policy and Procedure

Mr. Nakatsu stated that the current policy states that it would be reviewed every three years. He stated it has been nearly three years, and that we are bringing a proposed revision forward now because we were also having an ESG update. He also mentioned that the proposed policy revision had been reviewed at the preceding month's Administrative Committee; and that today's Board meeting was expected to be his last, until the Board very recently had asked him to stay longer.

Mr. Burgess asked Mr. Monaco to address the concerns Mr. Roach made during Public Comment.

Mr. Monaco stated that given the trustee and fiduciary duties of the Board, the revised policy is the strongest statement SCERS could make on ESG. He stated that the more recent DOL language has been helpful in recrafting the policy to make it clearer. When the policy says "economically equivalent" it is specifically incorporating DOL recent references even though there is little substantive change in the policy and that SCERS has always operated in a manner consistent with DOL's guidance. The revised policy language does help clarify boundaries.

Mr. Monaco stated that there is a proposed amendment to the proposed policy by Susan Coskey in which "may only consider" is replaced by "will give preference". The revision is as follows:

"The Board will give preference to an Investment Manager that advances its ESG goals if the selection results in an expected return on investment and related risk that is at least economically equivalent to other available Investment Managers in the same category."

Ms. Coskey stated that Mr. Malinowski and Ms. Johnson are also working on a procedure on how to operationalize this policy.

Mr. Burgess asked Ms. Coskey to move her amendment. Ms. Coskey moved the amendment.

Mr. Monaco added that the proposed amendment to the revised policy meets the Board's fiduciary responsibility. And, relative to the question raised during public comment about whether an ESG proposed action is duplicative, the Board has the discretion to decide if a proposal is similar enough to a previously considered proposal to be considered duplicative.

Mr. Monaco stated that this specific issue relates to considering outside proposals and it is appropriate for the Board to regulate workflow and its ability to manage those issues.

Mr. Burgess said that this is not a new policy. The key phrase is “at the discretion of the Board”.

Mr. Nakatsu added that the previous policy had included the Investment Committee in the decision making. The revised policy drops that step in the interest of expediency and allows the Board to take action directly. Mr. Nakatsu also added that it is important to acknowledge that 350 Seattle has been exceptionally valuable for bringing proposals and information to staff and the Board, helping to keep us abreast of developments, and has really been a catalyst for SCERS to have undertaken its significant ESG actions.

Mr. Burgess said that Mr. Nakatsu, Mr. Malinowski, Ms. Johnson, Ms. Crawford, Mr. Lee, Mr. Van Duzer, and he had met with members of 350 the previous week for 90 minutes and had a healthy back and forth discussion.

Motion: Upon motion of Tim Burgess, seconded by Susan Coskey, the Board of Administration accepted the Administrative Committee’s recommendation and adopted the revised Environmental, Social, and Governance Policy and Procedure as amended. The motion passed unanimously (7-0).

Investment Committee Report

US Small Cap Equity Manager Selection – May 26, 2016

Mr. Malinowski stated that the Investment Committee is recommending to the Board to increase its investment with Dimensional Fund Advisors (DFA) with a \$58M US small cap equity mandate to complement its existing non-US small cap equity mandate. This follows an expansive US small cap value and growth search that Ms. Johnson led.

Motion: Upon motion of Lou Walter, seconded by Glen Lee, the Board of Administration accepted the Investment Committee recommendation and approved the investment of approximately \$58 million in the DFA US Small Cap Trust, pending satisfactory legal review. The motion passed unanimously (7-0).

Infrastructure Manager Selection – April 28, 2016

Mr. Malinowski stated that staff were bringing back something that was approved at the May 12, 2016 Board meeting. Global Infrastructure Partners III (GIPIII) contractually handles its commitment amount and associated management fees in a different way than many other managers. K&L Gates and staff are comfortable with that arrangement but a revised motion is needed. The motion has been changed to include the term “plus applicable management fees”.

Motion: Upon motion of Lou Walter, seconded by Jean Becker, the Board of Administration accepted the Investment Committee recommendation that the Board of Administration commit \$12 million plus applicable management fees to Global Infrastructure Partners III, pending satisfactory legal review. The motion passed unanimously (7-0).

Executive Director Report

2016 Trustee Election (Active Member Seat)

Motion: Upon motion of Susan Coskey, seconded by Lou Walter, the Board of Administration ratified the certification of election results as provided by Election Services Co. for the 2016 Board of Administration election for the active member seat (3-year term July 1, 2016 – June 30, 2019); and Jean Becker was re-elected. The motion passed 6-0-1 with Jean Becker abstaining.

Operations/Finance Report

Jeff Davis reported that staff and ViTech consultants are about to complete the first round of sprints for the Pension Administration System (PAS). The foundational components of the PAS have already been completed.

The operations staff are about to start a six week training course which will include soft skills on customer service.

The July Board agenda will include Milliman's valuation report and the financial audit.

SCERS Dashboard

Mr. Davis stated that the wait for retirement estimates has dropped below target levels and is sustainable. Staff is working on buybacks and other items. We are now going to utilize the member services team on the PAS. They will be doing testing and data validation.

Mr. Nakatsu said the credit goes to Mr. Davis and his team.

Mr. Burgess asked when the Board can return to the SCERS conference room at the Pacific Building.

Mr. Davis replied that scanning for the PAS will occur in the conference room through the end of this year. There's a possibility that Board meetings can be moved back to the Pacific Building in 2017.

Ms. Becker asked Mr. Davis what he attributes to getting the retirement estimates down.

Mr. Davis replied that the department has added capacity with term limited staff, but the biggest component is adding a full time position to manage the group. Before the position was part-time. Cynthia Scheiderer has been focused on providing guidance and improving the department.

Mr. Nakatsu stated that Ms. Scheiderer is exceptional in what she does.

Mr. Malinowski reported on investment performance on the Dashboard. He stated that SCERS's performance has improved relative to peers.

(10:17 a.m. – Susan Coskey left the meeting)

Mr. Walter stated that he was interested in taking a look at SCERS senior executive compensation. He said that is a matter the Board needs to take up at some point.

Mr. Nakatsu said that he did not think it required Board action. Most, if not all, of the Board is supportive. He said that he can take the initiative for SDHR review. It was clear the Board is concerned about it.

Mr. Burgess asked Mr. Nakatsu to keep the Board informed.

Mr. Harvey asked how the City handles it. He stated that he was also supportive.

Mr. Nakatsu replied that SCERS would go through the SDHR process. He would reflect that it was the priority of the Board.

Adjourn Meeting – The meeting was adjourned at 10:28 a.m.

Susan Coskey, Board Secretary