



Seattle City Employees' Retirement System
Board of Administration Meeting
720 Third Avenue, 9th Floor (Pacific Building)
(206) 386-1293

Minutes of Thursday, January 8, 2015

Board Members Present: Lou Walter (Chair), Jean Becker, Robert Harvey, Jr, Glen Lee, Sherri Crawford (9:04 a.m.), Susan Coskey (9:08 a.m.)

SCERS Staff Present: Kenneth Nakatsu, Jeff Davis, Jason Malinowski, Tony Smith, Jill Johnson

Others Present: Carlton Seu (Seattle City Attorney's Office), Mike Monaco (Song Mondress Law Firm), Seldon Prentice, Bill Roach, Robert Moser, Tad Anderson, Lynn Fitz-Hugh, Alice Grendon, Denis Hayes, Alex Lenferna, Kyle Murphy, Bruce Herbert, Vivien Sharples, John Masterjohn (ARSE)

Lou Walter, Committee Chair, called the meeting to order at 9:03 a.m.

Public Comments:

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

Lynn Fitz-Hugh stated that NEPC comes from the perspective of market pricing and ignores the impact of bubbles. She drew an analogy to the 2008 housing bubble. She said that fiduciary responsibility demands that you be concerned about bubbles and that there are stories every day now warning of the concerns of oil prices and carbon bubbles. She mentioned that the Bank of England has warned that fossil fuels may be an unsafe investment.

Denis Hayes is president of the Bullett Foundation, which is housed in the greenest office building in the world. He stated that his board made the decision to divest from the CU200 (the decision arrived at through several meetings of their investment committee). He described his board as being very sophisticated financially and was chaired by the local head of a prominent bank. Mr. Hayes said that no one knows what is going to happen in the energy market that is dominated by state owned enterprises and sells into an oligopoly, and this is not an efficient market.

Bob Moser is president and CEO of Laird Norton Wealth Management. He stated that they are responsible for \$5.2B in client assets; some of that amount is in socially responsible assets. He said he has firsthand experience in moving clients to an SRI approach and that most clients set a reasonable time period of three to five years to transition their investments, which corresponds with a normal course of review of managers. They have several managers that SCERS also has and which offer fossil free products. He also stated that real estate is already fossil free.

Seldon Prentice questioned whether NEPC's predictions are accurate. She said that the US-China climate agreement shows that the world is moving forward on combating climate change; Ms. Prentice says that NEPC's report says energy will be doing just fine going forward, but that the study is negated because of the US-China deal which, according to a Citigroup report, will result in \$3.9 trillion in lost revenue for big oil and coal. And, she said, if the world moves even further to limiting global warming to 2 degrees C in Paris next year, the loss in revenue for the carbon industry is estimated to be \$28 trillion. She asked, "Are you willing to bet the future of your pension and your grandchildren on industry projections of a future that is in contradiction with what the world says it is going to do?"

Alex Lenferna said their report warned that fossil free companies were in trouble due to the decrease of alternative energy costs, energy efficiency, changing norms and increasing costs of extraction. He indicated that many of their warnings have been playing out recently. Mr. Lenferna said that fossil fuel companies are taking on increasing amounts of debt while realizing much less revenue, and that the case is particularly bleak for coal. He said a recent report indicated that the carbon bubble could burst at any time and that this might be evident when the Bank of England releases its analysis of the carbon bubble in July.

Vivian Sharples is an employee in the Seattle Human Resources Department. Ms. Sharples stated she cares deeply about her pension but, also, deeply about climate change. She sees divestment as a way to satisfy both of these concerns. She said that the City spends a lot of time and money on sustainability (environmental equity, race & social justice) so it is strange for the City to invest and profit from the companies causing the problems. She said she is not the only City employee who feels this way and that she is speaking for many. She asked that we divest from investments in fossil fuels.

Kyle Murphy is a member of the Sierra Club. He stated that the Sierra Club recently joined Stanford, Rockefeller, KLP (Norway) and others in divesting from fossil fuels. He said that fossil fuel companies are overvalued and criticized NEPC's suggestion that carbon storage might be viable because it is just too expensive. He said the recent US - China deal and Governor Inslee's proposed cap and trade proposal reflect that actions will be taken to address climate change. He said that the SCERS Board has duties as parents or members of a community that transcend their fiduciary duties, and asked the Board to take a strong look at divestment.

Tad Anderson teaches atmospheric science at the University of Washington. He stated in the 1960s, no one thought that a world ice-albedo was possible but we now know that over millions of years there have been several "ice-ball" episodes. He drew an analogy to the thought that demand for fossil fuels will continue increasing in the future and urged the Board to consider what they have heard today that this paradigm may be wrong.

Administrative Consent Agenda

Minutes:

Provided in the Retirement Board packet was the minutes from the December 11, 2014 Retirement Board regular meeting.

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

Service	\$11,799,207.26
Beneficiary	\$ 937,793.44
Disability	<u>76,424.82</u>
Pension Payroll – PPE December 2014	\$12,813,425.52
Office Payroll – PPE December 12 and 26, 2014	\$164,778.37

Vouchers Processed – December 2014 – cannot be provided because Accounts Payable expenditures are extended for the month of December through January 9, 2015.

Immediate Withdrawals of Contributions for the month of December 2014:

MEMBER	Department Name	Position
Adoga, Ugan Wonah	Library	Security Officer
Brazel, Rosalind C	SDHR	Strat Avd 2
Brenneke, Andrea	SPD	Strat Adv 3
Buenafe Jr, Juan C	Sea Ctr	Usher
Camerano, Victoria Ann	Library	Library Assoc I
Canda, Valerio Canda	Sea Ctr	Laborer
Devries, Peter J	SCL	Lineworker
Holifield, Gary Brock	FAS	HVAC Tech
Hunter II, Derrick Robert	Sea Ctr	Laborer
Kringlen, Cory E	Sea Ctr	Stage Tech
Mendiola-Hamilton, Alison Dubois	SCL	Stat Adv 3



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Mills, Helen Louise	HSD	Counslr
Newson, Donna M	SPU	Personnel Spec, Sr
Oswald, Christopher	Library	Librn Intermitten
Pittman, Dylan Justin	Parks	Lifeguard
Pittman, Joan Ji Lee	Parks	Lifeguard
Poston, Darrell Lee	DPD	Permit Spec I
Pratt, Janice Marie	SDHR	Admin Spec II
Raymond, Joseph Gopher	Retirement	Ret Specialist
Sorrell, Kimberly Rae	FAS	Admin Spec II
Sutton, Victoria	Muni Crt	Admin Spec I
Wiggins, Chelsea Lynette	Library	Library Asst I
Wiley, James A	SPU	Info Pro C

Bold entries (if any) above indicate refund payment made to beneficiary of a member dying while in active status.

Withdrawals for a total of: \$565,866.17

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
Alberg,Catherine J	11/13/2014	62	21	186	Police	Parking Enfor
Anderson,Carol E	12/3/2014	62	23	348	SDOT	Assoc. Civil Eng Spclst
Baker,Jennifer S	12/2/2014	60	16	320	Library	Libarn
Dailey,James C	12/3/2014	54	28	268	Parks Dept	IT Systems Analyst
Farrell,Susan H	12/1/2014	63	17	282	Vested	Vested
Ireland,David A	11/28/2014	67	7	87	FIRE	Res & Eval Asst
Kaiser,Marlene P	12/3/2014	68	24	216	City Light	Actg Tech II
Mason,Edna	12/3/2014	59	11	49	Vested	Vested
Newman,Diane L	12/3/2014	64	5	256	Police	Strategic Advisor 2
Swanstrom,Robert J	12/3/2014	59	18	299	PublicUtil	Heavy Truck Driver
	Average	61.8	17	231.1		

For the month of December 2014: 86 new Members entered the System, 5 terminations, 10 Members retired in the System, 7 Members removed (\$10,479.46), 2 D/E Option, 5 F Option, and 0 over 60% benefit.

Motion: Upon motion by Robert Harvey Jr., seconded by Jean Becker, the Retirement Board of Administration approved the Administrative Consent Agenda. The motion passed unanimously (6-0).

- Minutes of the December 11, 2014 Board Meeting
- Ratification of Retirement Payroll, Office Payroll, Other Payments and Withdrawals
- Ratification of Service Retirements for the month of December 2014

Board Election Policy

Ken Nakatsu, Interim Executive Director, described a proposed board election policy:

- That there will be a two week candidacy period for prospective candidates to file for office, and
- If there is only one qualified candidate for a position, that the election will be waived and the Board will appoint the single candidate

Mr. Nakatsu said that SCERS traditionally had a one-week filing period and required a potential candidate to come in person to file. He said there is nothing in the code that specifies the length of the filing period or that the potential candidate has to appear in person. It had just been a long-standing practice.

Mr. Nakatsu proposed to lengthen the filing period from one week to two weeks. In addition, since elected officials can file electronically, it seems reasonable to allow Board candidates to do so too.

Under the proposed policy, the SCERS Executive Director would be granted the authority to determine the timing of the filing period.

Mr. Nakatsu also proposed that if there is only one candidate that the policy reflect that we do not need to have an election. This occurred last year when Lou Walter ran. According to Carlton Seu, from the Seattle City's Attorney's Office, the Board does have the ability to set this in policy through the Board's rule making authority.

Jean Becker asked what "qualified candidate," meant. Mr. Nakatsu responded that the candidate needs to be an employee or retiree. Mr. Walter added that the candidate needs to be a member of the retirement system. Mr. Nakatsu confirmed that this is the definition in the Seattle Municipal Code (SMC).

Susan Coskey stated that when she was talking about the deferred compensation plan board participation, that candidate(s) needed to be in good standing. Ms. Coskey wanted to know if there were criteria for board members. Mr. Seu confirmed that there is no requirement in the SMC, other than being a member of the system.

Mike Monaco suggested a revision to the language in the proposed election policy for letter B:

"If there is only one qualified candidate for a vacancy, then that candidate will be deemed to have won the election."

The Board agreed with the revised language.

Motion: Upon motion of Susan Coskey, seconded by Robert Harvey, Jr., the Retirement Board of Administration approved the Board Election Policy with the revision to "B" stating that "if there is only one qualified candidate for a vacancy, then that candidate will be deemed to have won the election". The motion passed unanimously (6-0).

Administrative Committee Report:

Ms. Becker stated that in her last report to the Board she proposed to conduct an evaluation of Interim Executive Director Ken Nakatsu. Last year's form was included in the briefing package for the Board. The Administrative Committee proposes that this form be also used for this year's review.

The Administrative Committee will be meeting in the afternoon during its Special Committee meeting to review forms and the process. Forms would be sent out on January 9, 2015 and collected by the end of the week. Results will be shared at the January 29, 2015 regular Administrative Committee meeting.

Mr. Nakatsu would be asked to prepare his report of accomplishments. The Administrative Committee would report back to Mr. Nakatsu at the February 12, 2015 Board Meeting.



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Ms. Becker asked for any comments that could be considered at the subsequent Special Administrative Committee meeting.

Ms. Coskey asked if they could postpone the decisions until after an expected Executive Session.

Investment Committee Report and Investment Accounting Summary Report for November 30, 2014

Jason Malinowski reported that there was not an Investment Committee meeting during December 2014.

SCERS transferred funds out of Russell US transition account to fund the Adams Street account, which will be used to make future investments.

He indicated we received distributions back from private equity managers (\$1.8M), and from real estate managers (\$1.2M). The change in the market value was over 1%. For the year, it is approximately 6%.

The funding ratio increased 44 basis points.

Executive Director Report

Jeff Davis reported that the RFP for the Pension Administration System was issued on November 26th. The vendor conference was held on December 17th.

Mr. Nakatsu stated that we are currently working on the draft contract for the PAS system.

Supervisors are working on performance evaluations for staff.

Staff are spending a lot of time on fossil fuel divestiture, which has been added to the work plan. It is reflected that we will be wrapped by February to coincide with the Board meeting.

For the January 29th Investment Committee meeting, other items added to the agenda are capital market expectations and results of the Board risk tolerance survey

Mr. Walter stated that he may be out of town on January 29th and would join the meeting via conference call.

SCERS' Work Plan and Operations/Finance

Mr. Davis spoke about the Dashboard and said we already talked about Goal 1 (delivering customer service).

We began implementing Goal 2 in December. Two retirement specialists are using the new calculations tool. Tim Morrison has become the supervisor of the retirement specialist group since he has been involved in developing the policy and tools.

One of the accomplishments is that we want to see an improvement in turnaround time. We have seen some of the benefits in putting the tool in place. On January 1st, the backlog is under 200 for the first time in a long time. There has been good progress in this area. We also want to get the time to complete retirement estimates to be no greater than four weeks.

Ms. Coskey wanted more information on Goal 1. From her perspective, she wanted to do a better job of communicating jointly. She indicated we are not doing a good job of communicating with employees (especially with the younger employees); and integrating the retirement benefits information into new employee orientation.

Mr. Davis acknowledged that we needed to improve and mentioned exempt employees. He stated that exempt employees only have a set amount of time to join the retirement system and SCERS should ensure that they are aware of the timeframe in which to do so.

Mr. Nakatsu had a meeting with Renee Freiboth in Human Resources about coordinating retirement information with deferred compensation information and generally how to work more closely together to improve customer service.

Mr. Davis appreciated Ms. Coskey's suggestion about adding this as a work plan item.

Mr. Davis continued discussing the dashboard and reviewed results of the updated organization culture survey which is reflected in box 4.

The Board of Administration entered into Executive Session at 10:00 a.m. for 25 minutes to discuss personnel matters and a quasi-judicial matter related to a disability retirement application. At 10:25 a.m. it was announced that Executive Session would be extended for an additional 20 minutes, and at 10:45 a.m. it was announced that the Executive Session would be extended for an additional 15 minutes.

Executive session ended and the meeting was resumed in public session at 10:56 a.m.

Motion: Upon motion of Lou Walter, seconded by Glen Lee, the Retirement Board of Administration approved Gary Ekman's disability retirement application. The motion passed unanimously (6-0).

Adjournment

Motion: Upon motion of Lou Walter, seconded by Robert Harvey, Jr., the Retirement Board of Administration voted to adjourn the meeting. The motion passed unanimously (6-0).

The meeting adjourned at 10:57 a.m.

Susan Coskey, Secretary