

Spokane Employees' Retirement System (SERS)
Board Meeting Minutes
August 29, 2018

The regular monthly meeting was called to order at 12:12 p.m. in the Tribal Conference Room in the lobby at City Hall.

Present: Mike Coster, Jim Tieken, Candace Mumm, Dean Kiefer, Brian Brill, and J.D. Morscheck

Absent: Mike Cavanaugh

Staff: Phill Tencick, Christine Shisler, Donald Brown, and Tim Szambelan

Guests: Jayson Davidson, Joe Cavanaugh, Dave Hanshaw, Natalie Hilderbrand, Joan Hamilton, Lee Ann Reid, Richard Czernik, and Adam Miles

Hyas Group, 2018 2nd Quarter Investment Performance Report

Mr. Davidson presented the Second Quarter Performance Report. He discussed portfolio- and asset class-level performance, as well as specific items of interest related to investments that have had performance issues. The Portfolio posted a 1.4% quarterly return besting its policy benchmark by 0.3% and performance remains above benchmark year-to-date. With the full liquidation of the Berens Global Value Fund, the following funds remain on watch status: MFS Blended Research Core, Jackson Square Large Cap Growth, Vanguard Mid Cap Growth for performance related issues and all OrbiMed products qualitative factors.

Mr. Davidson informed the Board that American Beacon has elected to sell its Flexible Bond strategy to another firm and the new firm will not be maintaining the strategy in the same way as American Beacon. With that, Hyas Group recommended terminating the manager from the SERS Plan. Proceeds from this liquidation will be used to fund pension payments.

Jim Tieken moved and Dean Kiefer seconded the motion to terminate the American Beacon fund. The motion passed unanimously.

Mr. Davidson will work with Hyas' analytics team to provide a broader set of time intervals for the risk and returns metrics page contained in the report. Currently Hyas is presents the since inception data only.

Emerging Markets Manager Search

Mr. Davidson presented the Hyas Group prepared Emerging Markets Manager Search Report to replace the recently liquidated Berens Global Value Fund. Mr. Tencick provided the staff analysis and recommendation. The Board discussed various investment options, and a number of factors were reviewed and considered. Hyas recommended awarding

the mandate to ABS and Dimensional Fund Associates (DFA). Staff recommended awarding the mandate to ABS and DFA.

Candace Mumm moved and Jim Tieken seconded the motion to commit 80% of the overall Emerging Markets Equity allocation to ABS Emerging Markets. The motion passed 5 to 1 with J. D. Morscheck voting nay.

Candace Mumm moved and Jim Tieken seconded the motion to split the remaining 20% from the American Beacon redemption and commit 10% to Vanguard and 10% to DFA International Small Cap Fund. The motion failed to pass 5 to 1 with Candace Mumm voting in favor.

The initial funding will be \$8 million dollars, which will be drawn from the Vanguard Emerging Market Stock Index Fund that has been used as a place holder for this allocation. Given that the ABS product is somewhat liquidity constrained, the Board elected to leave a remaining \$2 million dollars in the Vanguard Fund for liquidity purposes. The Board may consider other funding options for the liquidity portion at a later date.

Opportunistic Credit Manger Search

The Board was presented the Hyas Group prepared due diligence write-up and the staff recommendation for the Contrarian Capital Fund, a proposed Opportunistic Credit mandate. The SERS portfolio calls for a 7% allocation to the Opportunistic Credit asset category and currently this class has only been funded at the 3.5% level. The remaining half of the allocation has been held in the High Yield asset category as a temporary placeholder while a search was being performed for additional funding vehicles.

Jim Tieken moved and Dean Kiefer seconded the motion to commit \$10 million to Contrarian Capital Fund I pending legal review of the offering documents. The motion passed 5 to 1 with J. D. Morscheck voting nay.

The evaluation of the Contrarian Capital Fund introduced a standalone, unique investment opportunity that is a limited sub-component of the Contrarian Capital Fund. The Contrarian Emerging Markets Partnership due diligence write-up was presented to the Board for consideration as a Special Opportunity investment within the SERS portfolio. Given the unique exposure to distressed emerging markets credit and the risk/return profile of the product, the fund does not correlate closely with any other asset class within the SERS portfolio. Hyas Group recommended a \$6 million funding with the proceeds coming equally from OrbiMed Partners Fund II and the broader US Equity allocation. For the equities portion, Hyas and staff will look to pull assets in an attempt to balance back to policy targets and any additional amounts will be drawn pro-rata.

Jim Tieken moved and Candace Mumm seconded the motion to commit \$6 million to Contrarian Emerging Markets pending legal review of the offering documents with \$3 million coming from the Special Opportunities fund and \$3 million from rebalancing equities. The motion passed 5 to 1 with J. D. Morscheck voting nay.

For the two Contrarian products noted above, Hyas Group confirmed that max drawdowns were measured from performance peak to performance bottom, with no restriction in time.

Manager Updates

Mr. Davidson informed the Board that the planned transition of all assets from the Castine I product to Castine II has been completed.

Minutes of the July 25, 2018 Meeting

Candace Mumm moved and Jim Tieken seconded the motion to approve the minutes of the July 25, 2018 meeting as amended. The motion passed unanimously.

Director's Report

Service Retirements

<i>Name</i>	<i>Age</i>	<i>Retirement Date</i>	<i>Years of Service</i>	<i>Option</i>
Anjanette Hughes	50	08/01/2018	10.4	E
Louie W. Aquino	62	08/07/2018	27.8	E
Steven L. Theodorson	65	08/18/2018	18.9	C-5
William A. Hansen	56	08/24/2018	30.0	E
Michael H. Gibbons	63	09/05/2018	40.3	E
Patrick J. Kenney	62	09/22/2018	5.1	ST
Gary D. Hocking	63	11/02/2018	40.3	E
Robert D. Chiappe	53	01/12/2019	21.8	E

Jim Tieken moved and Brian Brill seconded the motion to approve the service retirements as presented on the August Retirement Transaction Report. The motion passed unanimously.

Withdrawals for August 2018

<i>Name</i>	<i>Years of Service</i>	<i>Termination Date</i>
Courtney A. Shearer	4.3	07/06/2018

Brian Brill moved and Jim Tieken seconded the motion to approve the requests for withdrawal as presented on the August Retirement Transaction Report. The motion passed unanimously.

Deaths

<i>Name</i>	<i>Date Retired</i>	<i>Age</i>	<i>Date of Death</i>	<i>Information</i>
Jeffrey B. Lindholm	07/14/2018	63	07/27/2018	E Option Continues
Ivan E. Utt	01/03/1997	80	08/18/2018	No Further Benefits

Death information provided to the Board for review.

Expenditure Summary Report – July 2018

The Expenditure Summary Report was presented to the Board and discussed.

Jim Tieken moved and Dean Kiefer seconded the motion to approve the July 2018 Expenditure Summary Report. The motion passed unanimously.

Schedule of Investments – July 2018

The monthly investment report was presented to the Board for review. The estimated market value of the SERS portfolio on July 31, 2018 was \$311 million with an estimated rate of return of 1.9% for the month.

Monthly Cash Reconciliation

The monthly cash reconciliation report was presented to provide the Board with additional insight into the ongoing liquidity, transactions, and cash position of the plan

There being no other business, the meeting adjourned at 1:59 p.m.

/s/

Phillip Tencick, Retirement Director