

**Spokane Employees' Retirement System (SERS)**  
**Board Meeting, 1:00 p.m. February 3, 2021**  
**WebEx Meeting**

**AGENDA**

1. Minutes of the January 6, 2021 Meeting
  - Motion
2. Director's Report
  - a. Retirements
    - Motion
  - b. Withdrawals
    - Motion
  - c. Deaths
    - Information
  - d. Schedule of Investments – December 2020
    - Information
  - e. Cash Reconciliation – January 2021
    - Information
  - f. Other Business
    - (1) Investment Advisory Committee Report
    - (2) Voluntary Retirement Incentive Program Update
3. Absolute Return Primer
  - Information
4. Upcoming Board Election (Jim Tieken's term)
  - Information
5. Other Business
6. Next Meeting - **Wednesday, March 3, 2021 at 1:00 p.m.**

**\*\*Please note:** The February Board meeting will be held via [WebEx Meeting](https://spokanecity.webex.com/spokanecity/j.php?MTID=m8f878d87e02070a11dedec340d076f48).  
<https://spokanecity.webex.com/spokanecity/j.php?MTID=m8f878d87e02070a11dedec340d076f48>  
Meeting dial-in number: 1-408-418-9388  
Meeting number (access code): 146 702 9200  
Meeting password: SERS

**Spokane Employees' Retirement System (SERS)**  
**Board Meeting Minutes**  
**January 6, 2021**

The meeting was called to order at 1:02 p.m. via WebEx conference call.

**Present:** Mike Coster, Brian Brill, Michael Cathcart, Joe Cavanaugh, Dean Kiefer, and Jim Tieken

**Absent:** J.D. Morscheck

**Staff:** Phill Tencick, Christine Shisler, and Tim Szambelan

**Guests:** Justin Anderson, Teri Stripes, Lauren Albanese, and Maja Ben

**Election of the Chairperson**

Jim Tieken moved and Dean Kiefer seconded the motion to select Mike Coster as the Board Chairperson for the year 2021. The motion passed unanimously.

**Minutes of the December 2, 2020 Meeting**

Dean Kiefer moved and Jim Tieken seconded the motion to approve the minutes of the December 2, 2020 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>
Burton 'Mike' Smith	62	01/04/2021	24.3	E
Ellen M. Peters	58	01/06/2021	5.9	E
Roger A. Haney	63	01/09/2021	30.4	E
James A. (Tony) Tompkins	71	01/09/2021	20.5	D
Stewart B. Deford	67	02/06/2021	20.0	D

Dean Kiefer moved and Jim Tieken seconded the motion to approve the service retirements as presented on the December Retirement Transaction Report. The motion passed unanimously.

**Withdrawals for January 2021**

<i>Name</i>	<i>Years of Service</i>	<i>Termination Date</i>
John C. Britton	14.2	10/02/2020

Jim Ticken moved and Dean Kiefer seconded the motion to approve the requests for withdrawal as presented on the December 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>
Briana L. Bradley	05/08/2015	65	11/19/2020	No Further Benefits
Thomas A. Makela	09/09/2011	72	12/07/2020	No Further Benefits

Death information provided to the Board for review.

### Expenditure Summary Report – November 2020

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

Joe Cavanaugh moved and Dean Kiefer seconded the motion to approve the November 2020 Expenditure Summary Report. The motion passed unanimously.

### Schedule of Investments – November 2020

The monthly investment report was presented to the Board for review. The estimated market value of the SERS portfolio on November 30, 2020 was \$381 million with an estimated rate of return of 8.8% 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.

### Other Business

Mr. Tencick updated the Board on the City's proposed Voluntary Retirement Incentive Program (VRIP). The VRIP has not been finalized and the proposed timeline would require the decision to implement in January. The analysis previously presented to the Board has been provided to the City.

SageView announced that the firm was selling a controlling interest to a capital partner. A call is scheduled to evaluate the impacts of the transactions and any concerns will be reported to the Board.

### Investment Outlook Review

Mr. Tencick presented an overview of the 2021 market and economic outlooks from a variety of asset managers and investment consultants. Generally, there was a positive outlook for global economic growth, with fiscal and monetary support maintained, and a favorable environment for risk assets. Areas of risk were noted to be timing and restrictions required to contain COVID-19, inflationary pressure, and sorting through permanent versus temporary changes to the economy as it reopens.

There being no other business, the meeting adjourned at 2:41 p.m.

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**Phillip Tencick, Retirement Director**

DRAFT

# SERS Retirement Transaction Report

February 2021

## Retirements

	<b>Name</b>	<b>Age</b>	<b>Retirement Date</b>	<b>Years of Service</b>	<b>Department</b>	<b>Option</b>
1	Barbara L. Ackermann	50	02/01/2021	11.8	Civil Service	B
2	William 'Ben' Gagne	50	02/01/2021	19.5	Worker's Comp	ST
3	Darrel W. Wilson	55	02/06/2021	30.4	Engineering Svc	ST
4	Katrina K. Stephens	58	02/06/2021	15.4	Engineering Svc	E
5	George E. Good	59	03/05/2021	16.6	Parking Meter	ST
6	Chris D. Hammer	62	03/06/2021	21.1	Stormwater	ST
7	Evan B. Bowden	64	03/06/2021	12.9	Parking Meter	ST
8	Rebecca L. Lessard	62	04/02/2021	12.9	Police	A
9	Robert L. White	61	07/10/2021	12.2	Stormwater	ST

Retirements YTD                      5

2020 Total Retirements            74

## Withdrawals

	<b>Name</b>	<b>Years of Service</b>	<b>Department</b>	<b>Termination Date</b>
1	John C. Nicholson	1 day	My Spokane	12/28/2020

## Deaths

	<b>Name</b>	<b>Date Retired</b>	<b>Age</b>	<b>Date of Death</b>	<b>Information</b>
1	Paul M. Tanners	03/09/1999	79	12/05/2020	No Further Benefits
2	Kathleen E. Fairfax	10/12/2004	78	01/09/2021	No Further Benefits
3	Gail A. Mangano	10/02/2001	84	01/14/2021	No Further Benefits

SERS Schedule of Cash and Investments

December 31, 2020

1/28/2021

	Type		Allocation		
			Target	Current	Diff.
Cash Held by Treasurer	Cash	\$ 141,000			
US Bank	Short-term Inv	105,334			
<b>Total Cash</b>		<b>246,334</b>	<b>0.0%</b>	<b>0.1%</b>	<b>0.1%</b>
Sterling Capital	Total Return	29,676,684			
<b>Total Total Return</b>		<b>29,676,684</b>	<b>10.0%</b>	<b>8.9%</b>	<b>-1.1%</b>
Hotchkis & Wiley	High Yield - Mutual Fund	15,713,795			
<b>Total High Yield</b>		<b>15,713,795</b>	<b>5.0%</b>	<b>4.7%</b>	<b>-0.3%</b>
Polar	LLC	8,377,873			
Post Limited Term High Yield	Ltd Partnership	6,742,426			
Rimrock Low Volatility	Ltd Partnership	10,045,161			
<b>Total Absolute Return</b>		<b>25,165,460</b>	<b>8.0%</b>	<b>7.6%</b>	<b>-0.4%</b>
<b>Total Capital Preservation</b>		<b>70,802,273</b>	<b>23.0%</b>	<b>21.3%</b>	<b>-1.7%</b>
Hotchkis & Wiley	LC Value - Mutual Fund	17,184,535			
MFS Growth	LC Growth - Mutual Fund	15,579,502			
Fidelity S&P 500 Index	LC Core - Mutual Fund	36,584,084			
<b>Total US Large Cap</b>		<b>69,348,121</b>	<b>21.0%</b>	<b>20.9%</b>	<b>-0.1%</b>
Sterling	MC Value	5,478,458			
Westfield MC Growth	MC Growth	5,352,601			
Fidelity MC Index	MC Core - Mutual Fund	5,404,461			
Champlain	SC Core	8,602,515			
Bridge City	SC Growth	-			
Wells Fargo	SC Value - Mutual fund	4,522,648			
Fidelity SC Index	SC Core - Mutual Fund	508,894			
<b>Total US Small/Mid Cap</b>		<b>29,869,577</b>	<b>11.0%</b>	<b>9.0%</b>	<b>-2.0%</b>
<b>Total US Equities</b>		<b>99,217,698</b>	<b>32.0%</b>	<b>29.8%</b>	<b>-2.2%</b>
Artisan	SMID Value - Mutual Fund	25,123,045			
Euro Pacific	LC Blend - Mutual Fund	28,241,755			
Fidelity International	LC Index - Mutual Fund	-			
<b>Total International Large Cap</b>		<b>53,364,800</b>	<b>15.0%</b>	<b>16.0%</b>	<b>1.0%</b>
Trivalent	SC Value - Mutual Fund	15,014,097			
<b>Total International Small/Mid</b>		<b>15,014,097</b>	<b>4.0%</b>	<b>4.5%</b>	<b>0.5%</b>
Vanguard EM Index	EM - Mutual Fund	538,804			
ABS Emerging Markets	Ltd Partnership	11,134,081			
<b>Total Emerging Markets</b>		<b>11,672,885</b>	<b>3.0%</b>	<b>3.5%</b>	<b>0.5%</b>
<b>Total International Equities</b>		<b>80,051,782</b>	<b>22.0%</b>	<b>24.1%</b>	<b>2.1%</b>
Weatherlow Offshore	Ltd Partnership	21,110,483			
Royalty Opportunities I	Ltd Partnership	1,208,631			
Royalty Opportunities II	Ltd Partnership	950,382			
<b>Total Long Biased</b>		<b>23,269,496</b>	<b>7.0%</b>	<b>7.0%</b>	<b>0.0%</b>
Metropolitan Real Estate Partners	Ltd Partnership	137,535			
Morrison Street Fund V	LP	845,387			
Morrison Street Fund VI	LP	1,585,413			
Morrison Street Debt Opportunties	LP	3,175,992			
Morgan Stanley Prime	LLC	7,227,032			
Principal (REITs)	REITs	14,043,424			
<b>Total Real Estate</b>		<b>27,014,783</b>	<b>9.0%</b>	<b>8.1%</b>	<b>-0.9%</b>
Contrarian Capital Fund I	Ltd Partnership	8,295,348			
Beach Point	Ltd Partnership	12,537,349			
<b>Total Opportunistic Credit</b>		<b>20,832,697</b>	<b>7.0%</b>	<b>6.3%</b>	<b>-0.7%</b>
Contrarian EM Credit	LLC	4,744,545			
OrbiMed II	Ltd Partnership	6,654,892			
<b>Total Special Opportunities</b>		<b>11,399,437</b>	<b>0.0%</b>	<b>3.4%</b>	<b>3.4%</b>
<b>Total Cash and Investments</b>		<b>\$ 332,588,166</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>
	Monthly Contributions	1,631,782			
	Monthly Pension	\$ (2,871,228)			
	As of November 30, 2020	<b>\$ 327,090,698</b>			
	Estimated Rate of Return	2.1%			
<b>Abs. Return and Total Return FI</b>	Thesis 2017.1	<b>54,842,144</b>	<b>18.0%</b>	<b>16.5%</b>	<b>-1.5%</b>
<b>Equity and Special Situations</b>	Thesis 2017.3	<b>190,668,917</b>	<b>54.0%</b>	<b>57.3%</b>	<b>3.3%</b>

## Cash Recon - Jan

Date	Transactions	Sources	Uses	Balance
<b>12/31/2020</b>	<b>Beginning Balance</b>			<b>2,827,156.15</b>
12/31/2020	December Pension Payment		(2,721,832.24)	<b>105,323.91</b>
1/4/2021	Payroll Contributions	841,071.10		<b>946,395.01</b>
1/4/2021	Interest	9.76		<b>946,404.77</b>
1/13/2021	Return/Reissue Pension Payment	2,062.63	(2,062.63)	<b>946,404.77</b>
1/19/2021	Reissue Pension Payment	(626.95)		<b>945,777.82</b>
1/19/2021	Payroll Contributions	857,505.68		<b>1,803,283.50</b>
1/19/2021	Distribution - Morrison Street V	415,993.08		<b>2,219,276.58</b>
1/19/2021	Distribution - Westfield MC Growth	46,861.88		<b>2,266,138.46</b>
1/21/2021	Return Pension Payment	2,540.76		<b>2,268,679.22</b>
1/25/2021	Return/Reissue Pension Payment	626.95	(626.95)	<b>2,268,679.22</b>
1/27/2021	Purchase - Sterling Core Fixed Income		(2,250,000.00)	<b>18,679.22</b>
1/27/2021	Return Pension Payments	882.39		<b>19,561.61</b>
<b>1/27/2021</b>	<b>Ending Balance</b>	<b>2,166,927.28</b>	<b>(4,974,521.82)</b>	<b>19,561.61</b>
	<u>Upcoming</u>			
1/28/2021	Sale - EuroPacific Growth	2,750,000.00		
1/29/2021	January Pension Payments		(2,716,452.34)	

**Spokane Employees' Retirement System (SERS)**  
**Investment Advisory Committee Minutes**  
**January 26, 2021**

The Investment Advisory Committee (IAC) meeting was called to order at 10:00 am on January 26, 2020 via WebEx. The committee met in accordance with Washington State RCW 35.39.080 and .090 and submits the following report.

**Present:** Brian Brill, Gene Fitzpatrick, Phillip Tencick, and Tonya Wallace  
**Absent:** Dean Kiefer  
**Guests:** Jayson Davidson and Brian Loescher from Hyas Group

2020 Market Update

Mr. Davidson reviewed broad economic data and the major market indices for the fourth quarter and full year of 2020. The pandemic outbreak of COVID-19 wreaked havoc. Global economies and markets stalled in the first quarter as efforts to contain the virus disrupted daily life. Governments and central banks were quick to provide fiscal and monetary stimulus. Economies managed a limited recovery as they adapted to the impact of restrictions designed to slow the spread of the virus. Markets more than fully recovered in the second half of the year with many risk bearing assets reaching record highs. It was noted that earnings growth and economic fundamentals will have to continue improving for markets to meet the expectations currently priced into equities. At year end, low interest rates present a challenge to fixed income's traditional role in portfolios of providing income and risk protection because of historically low yields and high duration.

Investment Manager Actions

Mr. Davidson highlighted the investment activities from 2020:

**Watch List as of December 31, 2019**

- Vanguard Mid Cap Growth – Performance, Qualitative
- OrbiMed Partners – Performance
- Sterling Mid Cap Value – Performance
- Hotchkis & Wiley Diversified Value – Performance
- Frontier Phocas Small Cap Value – Performance
- Post Limited Term High Yield – Qualitative
- Hotchkis & Wiley High Yield – Performance

**4Q19 Meeting – March 4, 2020**

- Post Limited Term HiYld – Removed from watch status as we became increasingly comfortable with a senior leadership change at the firm.
- Vanguard Mid Cap Growth – Manager search completed and Westfield Mid Cap was hired as replacement.

**1Q20 Meeting – June 3, 2020**

- Frontier Phocas Small Cap Value – Terminated due to unexpected closure of mutual fund.
- Castine Partners II – Added to the watch list for exceptionally poor performance during 1Q20.

**2Q20 Meeting – September 2, 2020**



- Castine Partners II – Management elected to shut down and liquidate the fund.

### **3Q20 Meeting – December 3, 2020**

- Wells Fargo Small Cap Value – Manager search completed and Wells Fargo was selected to replace Frontier Phocas Small Cap Value
- Rimrock Low Vol – Added to watch list for underperformance.

### **On-watch Status as of December 31, 2020:**

- Sterling Mid Cap Value
- Orbi-Med Partners
- Hotchkis & Wiley Diversified Value
- Hotchkis & Wiley HiYld
- Rimrock Low Vol

There being no other business, the meeting adjourned at 10:44am.

Respectfully submitted,

Phillip Tencick  
Retirement Director

# ABSOLUTE RETURN PRIMER

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February 2, 2021



# Capital Preservation Allocations

	Target Allocation	Target Return	Expected Risk	Current Yield
Cash	0.0%	2.25%	2.5%	0.09%
Core Fixed Income	10.0%	3.75%	4.4%	1.15%
High Yield	5.0%	6.75%	12.2%	4.30%
Absolute Return	8.0%	5.25%	6.7%	2.33%
<b>Total</b>	<b>23.0%</b>	<b>4.9%</b>		<b>2.25%</b>

	Cash	Core FI	High Yield	Absolute Return
Yield	None	Low	High	Moderate
Duration	None	Moderate	High	Low
Volatility	None	Low	High	Moderate
Expense	Very Low	Low	Moderate	High
Liquidity	Very High	High	Moderate	High
Complexity	Very Low	Low	Moderate	High
Bond Correlation	Low	High	Moderate	Low
Equity Correlation	None	Low	Moderate	Low

# What is Absolute Return?

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## Strategies

- **Market Neutral Long/Short** – Target idiosyncratic risk through hedged positions in similar securities
  - Polar Long/Short (2.4% Allocation)
- **Event Driven** – Target price mismatches related to specific market event, e.g. merger, maturity, or security with imbedded option
  - Post Limited Term High Yield (2.4% allocation)
- **Managed Futures** – Target structural differences in markets related to time-specific factors, e.g. commodities or foreign currency
- **Relative Value** – Target risk-adjusted returns by investing in securities with higher returns than the market for the same risk
  - Rim Rock Low Volatility (2.9% allocation)

## Key Risks

- Leverage
- Liquidity
- Hedge Effectiveness
- Risk Management

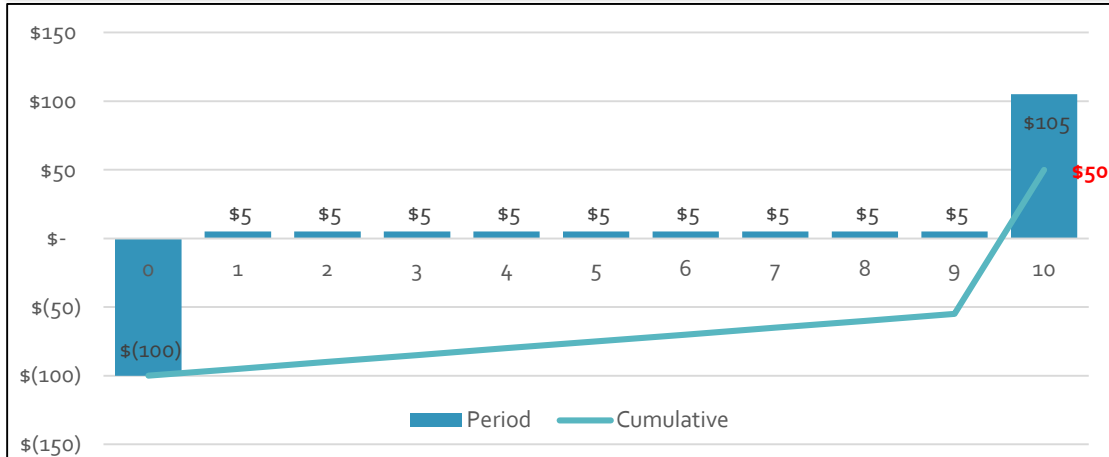
# Absolute Return Search

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## Parameters

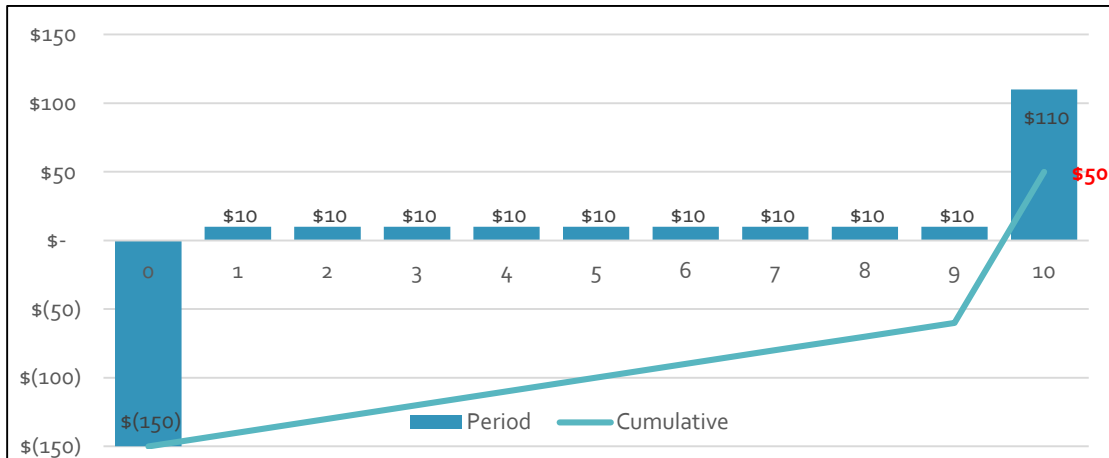
- Relative Value Strategy
- Unconstrained Global Fixed Income
- Return target Cash+2-3%
- Risk similar to Core Fixed Income
- Liquidity similar to High Yield
- Limited leverage for hedging

# Bond Mechanics



## New Issuance

Par: \$100  
 Coupon: 5% Annual  
 Maturity: 10 years  
 Rating: BBB  
 Price: \$100  
 Duration: 8.5 (70% of cash flow at maturity)



## Secondary Purchase

Par: \$100  
 Coupon: 10% Annual  
 Maturity: 10 years  
 Rating: BBB  
 Price: \$150  
 Duration: 7.75 (55% of cash flow at maturity)

# Relative Value Toolbox

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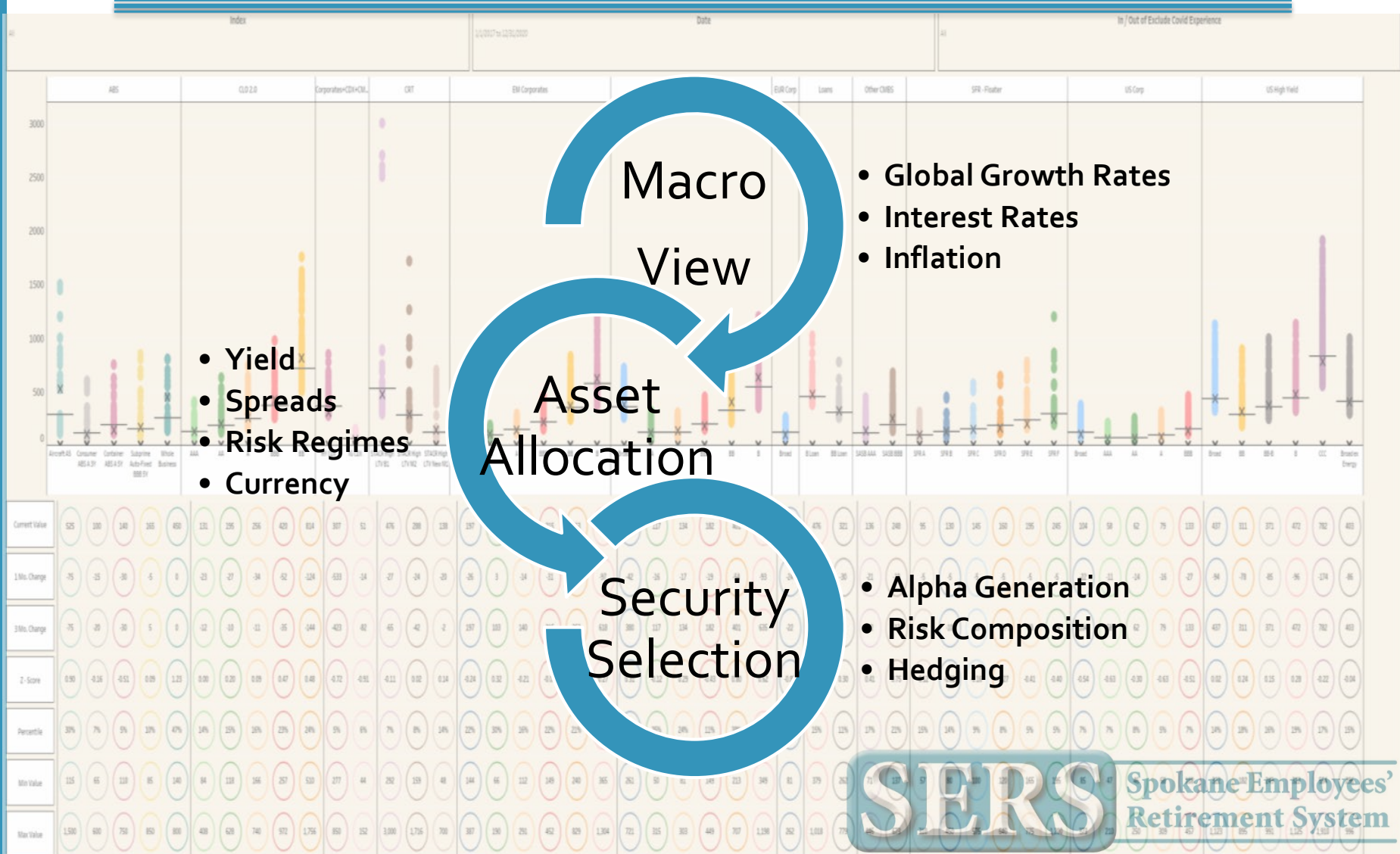
## Investment Types

- Government Bonds
  - US Treasuries
  - Sovereign
  - Municipal
- Corporate Fixed Income
  - Investment Grade
  - High Yield
- Asset Backed Securities
  - Agency MBS
  - Non-Agency MBS
  - Structured Products

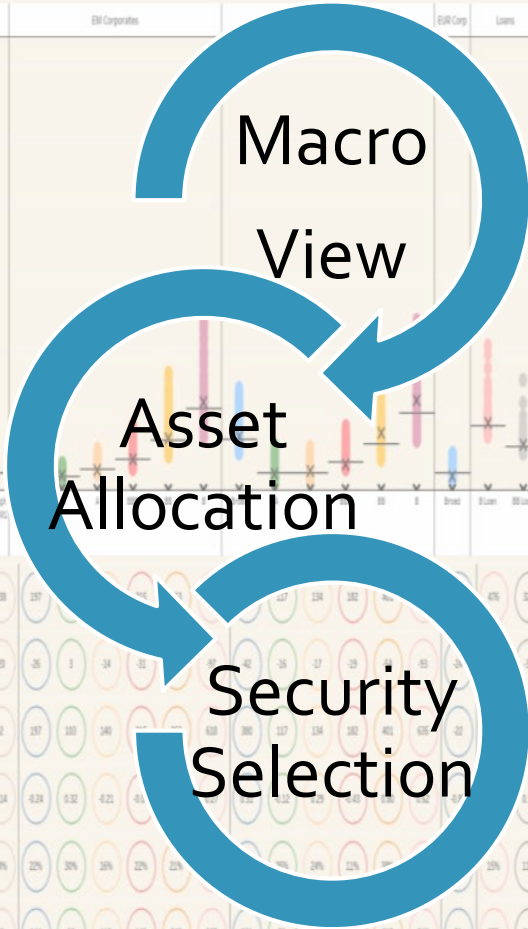
## Value Basis

- Credit Spreads
- Yield Curve
- Securitization
- Foreign Currency
- Hedged Exposures

# Investment Process



- Yield
- Spreads
- Risk Regimes
- Currency



- Global Growth Rates
- Interest Rates
- Inflation

- Alpha Generation
- Risk Composition
- Hedging