

Spokane Employees' Retirement System (SERS)
Board Meeting, 1:00 p.m. October 4, 2023
Council Briefing Center

AGENDA

Closed session

1. Retirement system makeup
 - Discussion

Open Session

2. Retirement System Makeup
 - Motion
3. Minutes of the September 13, 2023 Meeting
 - Motion
4. Director's Report
 - a) Retirements
 - Motion
 - b) Withdrawals
 - Motion
 - c) Vesting
 - Motion
 - d) Deaths
 - Information
 - e) Expenditure Summary Report – August 2023
 - Motion
 - f) Schedule of Investments – August 2023
 - Information
 - g) Cash Reconciliation – September 2023
 - Information
 - h) Other Business
- 5) OPMA Training
 - Information
- 6) Other Business
- 7) Next Meeting – **Wednesday, November 1, 2023 at 1:00 p.m.**

Spokane Employees' Retirement System (SERS)
Board Meeting Minutes
September 13, 2023

The regular meeting was called to order at 1:06 p.m.

Present: Jim Tieken, Joe Cavanaugh, Richard Czernik, Jonathan Bingle, Brian Brill, Brian Myers

Staff: Christine Shisler, Donald Brown, Tim Szambelan

Guests: Jayson Davidson, Tom Breaden, Jon Barnhart, Dave Hanshaw

Hyas Group, 2023 2nd Quarter Investment Performance Report

Mr. Davidson presented the Second Quarter 2023 Performance Report and discussed the quarter's overall market and economic conditions as well as expectations for the remainder of the year. The quarter provided for a strong, but somewhat unexpected, equity market rally. Economic and market themes remain largely the same since the start of this year, but economic and subsequent market resilience has been different than forecast. The U.S. economy is growing ahead of expectations and seems far removed from any sort of recessionary concern. U.S. equity markets continued to march in a positive direction even with the drop in quarterly earnings numbers and the continued focus on controlling inflation by the Federal Reserve. International markets are marching in step with the U.S. and themes are generally the same across the global landscape. In this backdrop, the SERS Portfolio performed well, posting a 3.3% total return relative to the policy benchmark's 2.6%. This leaves the SERS portfolio with a 7.3% return year-to-date and a 1.3% premium to the benchmark. During the quarter, several categories were additive to performance with International Equity, Long Biased, Private Credit, and Real Estate all contributing in excess of 1% to their respective category benchmarks.

At quarter-end, there were three managers on watch for performance in violation of underlying policy benchmarks. The Hotchkis & Wiley High Yield Fund and Sterling Mid Cap Value Fund remain in violation of policy parameters and will remain on watch. Mr. Davidson did note that each of these options posted strong performance numbers relative to benchmarks during the quarter. The position in the third watch status option, Rimrock Low Volatility, was liquidated in July and thus the manager will no longer be on the watch list going forward. SERS also held the MFS Large Growth Fund on qualitative watch as a result of the recently announced departure of one of the senior portfolio managers on the strategy. Hyas Group will likely hold this watch status until the end of this year. Mr. Davidson also noted that MFS Growth's performance relative to policy benchmarks has been weak and the option risks tipping into performance related investment policy violation if they do not improve over the remainder of the year.

Contrarian Emerging Markets Fund

Hyas Group recommend placing the Contrarian Emerging Markets strategy on watch for performance in violation of investment policy parameters. While the fund enjoyed a strong quarter and trailing one-year relative to its benchmark, the significant performance shortfall in 2020 has moved the 5-year policy performance into violation.

Richard Czernik moved, and Brian Myers seconded the motion to place Contrarian Emerging Markets Fund on watch due to performance issues. The motion passed unanimously.

Asset Allocation Implementation

Hyas Group presented what is effectively the second phase of the recently approved SERS asset allocation implementation. With this presentation, Hyas Group recommended transitioning all but \$6 million from the liquidation of Sterling Mid Cap Value, Fidelity Mid Cap Index, Westfield Mid Cap Growth CIT, Fidelity Small Cap Index, and Champlain Small Cap into the Black Rock US Small/Mid Index. The \$6 million residual will be used to fund a newly implemented position in the AllSpring Special Small Value Fund. Additionally, we proposed liquidating the Victory Trivalent International Small Cap position and transitioning the current Vanguard Emerging Markets Stock Index position to a lower cost share class at Vanguard. The proceeds from the Victory Trivalent liquidation would be used to fund the Black Rock International Small Cap CIT. Once implemented, these changes will serve to simplify overall portfolio holdings and reduce portfolio costs by approximately 11 bps.

Joe Cavanaugh moved, and Brian Myers seconded the motion to implement the modifications listed in the Asset Allocation Implementation presentation. The motion passed unanimously.

Equity Investment Modification/Allocation

With the presentation of the performance report, Hyas Group noted several categories that maintain an overweight position relative to policy targets. Specifically, Hyas Group is recommending moving \$5.6 million from the Fidelity S&P 500 Index Fund and \$1.6 million from the MFS Growth Fund in order to bring the Domestic Equity category back to target. We would split the proceeds of the aforementioned transfers equally between the Loomis Sayles Core Plus Fund and the Sterling Core Bond Fund. That allocation will bring the underweight in the Capital Preservation category closer to target. Additionally, Hyas Group believes the risk premium to be better for Fixed Income strategies relative to Domestic Equity, which has benefited from a significant market run-up this year.

Joe Cavanaugh moved, and Richard Czernik seconded the motion accept Hyas Group's recommendation for rebalancing. The motion passed unanimously.

Black Rock High Yield Fund

Mr. Davidson informed the Board that Black Rock, the Plan's current High Yield Bond Fund manager, is making available a less expensive Commingled Investment Trust (CIT)

vehicle. The CIT could replace the current mutual fund vehicle and will bring with it a 9 bps expense ratio reduction.

Joe Cavanaugh moved, and Richard Czernik seconded the motion to accept Hyas Group's recommendation and move from the Black Rock High Yield fund to the Black Rock Collective Investment Trust (CIT). The motion passed unanimously.

Hyas Group informed the Board that the recently approved adjustments to the Capital Preservation category manager allocations were completed at the end of June. The Loomis Sayles Core Plus Bond strategy and the Black Rock High Yield Bond Fund were added to the portfolio and funded from proceeds held in the fixed income index and Hotchkis & Wiley High Yield as short-term place holders.

Minutes of the August 2, 2023 Meeting

Joe Cavanaugh moved, and Richard Czernik seconded the motion to approve the minutes of the August 2, 2023 meeting as presented. The motion passed unanimously.

Director's Report

Service Retirements

Name	Age	Retirement Date	Years of Service	Department
Christopher L. King	51	09/01/2023	8.4	Solid Waste Management
Kenneth Lamoreaux	50	09/01/2023	7.4	Accounting
Matthew R. Bayley	50	11/01/2023	8.1	IT
David J. Randolph	64	12/09/2023	38.8	Parks & Recreation
Thomas M. Smith	70	12/30/2023	12.4	Development Service Center
Frank B. Espinoza	67	01/06/2024	7.1	Reprographics

Richard Czernik moved, and Brian Myers seconded the motion to approve the service retirements as presented on the September Retirement Transaction Report. The motion passed unanimously.

Withdrawals for September 2023

<i>Name</i>	<i>Years of Service</i>	<i>Termination Date</i>
Gabriel O. Rivera	0.3	07/25/2018
Colin M. Martin	4.9	03/11/2023
RaMona M. Pinto	1.0	06/20/2023
Catherine M. Mangis	6.3	06/24/2023
Richard D. Olson	0.8	07/06/2023

Richard Czernik moved, and Jonathan Bingle seconded the motion to approve the requests for withdrawal as presented on the September Retirement Transaction Report. The motion passed unanimously.

Vesting

<i>Name</i>	<i>Department</i>	<i>Years of Service</i>
Hannahlee F. Allers	Council	7.0
Breean L. Beggs	Council	7.4
Franklyn J. Powell	Development Services Center	7.1

Deaths

<i>Name</i>	<i>Date Retired</i>	<i>Age</i>	<i>Date of Death</i>	<i>Information</i>
Eunice L. Sproul	09/02/1994	93	08/12/2023	No Further Benefits

Vesting and death information provided to the Board for review.

Expenditure Summary Report – July 2023

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

Richard Czernik moved, and Brian Myers seconded the motion to approve the July 2023 Expenditure Summary Report. The motion passed unanimously.

Jonathan Bingle left the meeting.

Schedule of Investments – July 2023

The monthly investment report was presented to the Board for review. The estimated market value of the SERS portfolio on July 31, 2023 was \$336.3 million with an estimated rate of return of 2.4% 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

Joe Cavanaugh moved, and Richard Czernik seconded the motion to discuss the Retirement System makeup going forward in closed session at the October meeting. The motion passed unanimously.

2024 Budget

The 2024 Budget was presented to the Board and discussed.

Brian Myers moved, and Joe Cavanaugh seconded the motion to adopt the 2024 Budget, with the acknowledgement of the new Clerk III position, that the Board approved at its August 2023 meeting, not included. The motion passed unanimously.

Richard Czernik moved, and Brian Myers seconded the motion to adjourn at 2:05 p.m. The motion passed unanimously.

Christine Shisler, Interim Retirement Director

DRAFT

SERS Retirement Transaction Report

October 2023

Retirements

	Name	Age	Retirement Date	Years of Service	Department	Option
1	Leigh C. Yamada	51	10/01/2023	7.0	Parks & Recreation	ST
2	Lisa A. Malstrom	63	10/05/2023	32.5	Streets	ST
3	Michele R. Lesesne	60	10/14/2023	30.1	Accounting	E
4	Robert A. Christensen	67	11/04/2023	17.2	Solid Waste Management	E
	Retirements YTD	23				
	2022 Total Retirements	81				

Withdrawals

	Name	Years of Service	Department	Termination Date
1	Joshua A. Wright	7.8	Street	08/03/2023
2	Kayelee J. Alexander	4.4	Municipal Court	08/22/2023

Vesting

	Name	Department	Years of Service
1	Catherine D. Olsen	Integrated Capital Management	7.0

Deaths

	Name	Date Retired	Age	Date of Death	Information
1	Rufus L. Hall	08/01/1992	93	08/29/2023	No Further Benefits
2	Kenneth E. Evans	01/13/2022	85	08/30/2023	No Further Benefits
3	Lewis L. Applegate	02/12/2004	80	09/03/2023	E Option Continues
4	Robert J. Morgan	02/13/2016	69	09/08/2023	E Option Continues
5	Wallace H. Phillipson	10/15/2022	99	09/24/2023	No Further Benefits

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
 2023 EXPENDITURE SUMMARY REPORT
August 31, 2023

	2022 ACTUAL	2023 BUDGET	AUGUST ACTUAL EXPENDITURES	2023 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
OPERATING EXPENDITURES						
Departmental Salaries	327,889.58	342,544.48	15,416.00	159,159.11	183,385.37	46.5%
Departmental Benefits	97,465.19	95,262.14	4,863.73	42,696.47	52,565.67	44.8%
Reserve for Budget Adjustment	-	10,000.00	-	-	10,000.00	0.0%
Administrative Income	(15,225.22)	(10,000.00)	-	(11,683.23)		
Postage/Supplies/Other	2,332.92	7,250.00	47.45	1,112.69	6,137.31	15.3%
State Audit Charges	14,099.28	-	-	-	-	
Contractual Services	153,666.56	175,000.00	-	111,749.03	63,250.97	63.9%
Travel	2,256.29	15,000.00	-	7,436.94	7,563.06	49.6%
Registration/Schooling	575.00	16,000.00	925.00	7,220.00	8,780.00	45.1%
Other Dues/Subscriptions/Membership	1,610.73	2,500.00	-	2,243.00	257.00	89.7%
Other Miscellaneous Charges	3,845.29	5,200.00	330.00	662.32	4,537.68	12.7%
Amortization	17,649.00	-	-	7,353.75		
TOTAL OPERATING EXPENDITURES	606,164.62	658,756.62	21,582.18	327,950.08	336,477.06	49.8%
INTERFUND EXPENDITURES						
Interfund - Centralized Purchasing	7,027.44	2,001.00	-	2,001.00	-	100.0%
Interfund - Centralized Accounting	2,737.00	4,912.00	-	3,684.00	1,228.00	75.0%
Interfund - My Spokane	965.83	1,291.00	318.00	958.75	332.25	74.3%
Interfund - Risk Management	571.00	537.00	-	537.00	-	100.0%
Interfund - Worker's Compensation	123.00	118.00	-	118.00	-	100.0%
Interfund - Reprographics	11,049.94	6,781.00	641.16	6,078.60	702.40	89.6%
Interfund - IT	46,111.71	21,884.00	1,825.36	12,786.97	9,097.03	58.4%
Interfund - IT Replacement	3,305.04	2,961.00	246.75	1,727.25	1,233.75	58.3%
TOTAL INTERFUND EXPENDITURES	71,890.96	40,485.00	3,031.27	27,891.57	12,593.43	68.9%
TOTAL ADMINISTRATIVE EXPENDITURES	678,055.58	699,241.62	24,613.45	355,841.65	349,070.49	50.9%

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
 2023 EXPENDITURE SUMMARY REPORT
August 31, 2023

	2022 ACTUAL	2023 BUDGET	AUGUST ACTUAL EXPENDITURES	2023 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
PENSIONS						
Pensions-Annuity Benefit Payments	32,696,265.95	35,500,000.00	2,801,641.31	22,350,366.98	13,149,633.02	63.0%
Pensions-Disability Payments	114,579.60	135,000.00	9,548.30	76,386.40	58,613.60	56.6%
Pensions-Survivor Annuity Benefits Payments	2,246,951.76	2,500,000.00	194,890.02	1,548,281.48	951,718.52	61.9%
TOTAL PENSIONS	<u>35,057,797.31</u>	<u>38,135,000.00</u>	<u>3,006,079.63</u>	<u>23,975,034.86</u>	<u>14,159,965.14</u>	62.9%
Refunds	1,210,280.26	1,000,000.00	105,864.40	845,555.84	154,444.16	84.6%
TOTAL EXPENSES	<u><u>36,946,133.15</u></u>	<u><u>39,834,241.62</u></u>	<u><u>3,136,557.48</u></u>	<u><u>25,176,432.35</u></u>	<u><u>14,663,479.79</u></u>	63.2%
INVESTMENT EXPENSE*						
Advisory Technical Service	499,603.98	600,000.00	56,229.25	270,712.78	329,287.22	45.1%

* investment expenses are netted against investment income in the statement of changes of plan net assets to arrive at a net investment income amount.

SERS Schedule of Cash and Investments
August 31, 2023

9/25/2023

	Type		Allocation		
			Target	Current	Diff.
Cash Held by Treasurer	Cash	\$ 241,356			
US Bank	Short-term Inv	3,121,510			
Total Cash		3,362,866	0.0%	1.0%	1.0%
Sterling Capital	Total Return	30,499,918			
Loomis Sayles Core-Plus	Total Return-Mutual Fund	21,768,538			
Fidelity Core	FI - Mutual Fund	-			
Total Total Return		52,268,456	17.0%	15.8%	-1.2%
BlackRock	High Yield - Mutual Fund	6,132,810			
Hotchkis & Wiley	High Yield - Mutual Fund	15,983,607			
Total High Yield		22,116,417	8.0%	6.7%	-1.3%
Post Limited Term High Yield	Ltd Partnership	333,550		est hold back	
PIMCO Dynamic	Absolute Return	5,738,100			
Rimrock Low Volatility	Ltd Partnership	530,389		est hold back	
Polar	LLC	9,383,830			
Total Absolute Return		15,985,869	5.0%	4.8%	-0.2%
Total Capital Preservation		93,733,608	30.0%	28.3%	-1.7%
Hotchkis & Wiley	LC Value - Mutual Fund	10,119,773			
Fidelity S&P 500 Index	LC Core - Mutual Fund	38,932,813			
MFS Growth	LC Growth - Mutual Fund	11,893,550			
Total US Large Cap		60,946,136	16.0%	18.4%	2.4%
Sterling	MC Value	5,148,931			
Fidelity MC Index	MC Core - Mutual Fund	3,007,498			
Westfield MC Growth	MC Growth	5,331,661			
Fidelity SC Index	SC Core - Mutual Fund	507,885			
Champlain	SC Core	8,410,890			
Bridge City	SC Growth	7,826,619			
Allspring (FKA: Wells Fargo)	SC Value - Mutual fund	-			
Total US Small/Mid Cap		30,233,484	8.0%	9.1%	1.1%
Total US Equities		91,179,620	24.0%	27.6%	3.6%
Artisan	SMID Value - Mutual Fund	20,120,129			
Euro Pacific	LC Blend - Mutual Fund	14,299,886			
Fidelity International	LC Index - Mutual Fund	-			
Total International Large Cap		34,420,015	10.0%	10.4%	0.4%
Trivalent	SC Value - Mutual Fund	15,908,440			
Total International Small/Mid		15,908,440	5.0%	4.8%	-0.2%
Vanguard EM Index	EM - Mutual Fund	6,369,795			
ABS Emerging Markets	Ltd Partnership	9,861,480			
Total Emerging Markets		16,231,275	5.0%	4.9%	-0.1%
Total International Equities		66,559,730	20.0%	20.1%	0.1%
Weatherlow Offshore	Ltd Partnership	21,168,191			
Royalty Opportunities I	Ltd Partnership	674,022			
Royalty Opportunities II	Ltd Partnership	245,207			
Total Long Biased		22,087,420	9.0%	6.7%	-2.3%
Metropolitan Real Estate Partners	Ltd Partnership	-			
Morrison Street Fund VI	LP	6,845,317			
Morrison Street Fund VII	LP	1,607,123			
Morrison Street Income Fund	LP	2,544,161			
Morgan Stanley Prime	LLC	8,058,463			
Principal (REITs)	REITs	7,337,405			
Total Real Estate		26,392,469	7.0%	8.0%	1.0%
Contrarian Capital Fund I	Ltd Partnership	10,618,908			
Beach Point	Ltd Partnership	14,388,085			
Total Private Credit		25,006,993	8.0%	7.6%	-0.4%
Contrarian EM Credit	LLC	5,788,926			
OrbiMed II	Ltd Partnership	-			
Total Master Ltd Partnerships		5,788,926	2.0%	1.8%	-0.2%
Total Cash and Investments		\$ 330,748,766	100.0%	100.0%	0.0%
	Monthly Contributions	2,100,914			
	Monthly Pension	\$ (3,311,944)			
	As of July 31, 2023	\$ 336,318,618			
	Estimated Rate of Return	-1.3%			

SERS Cash Reconciliation-September 2023

Date	Transactions	Sources	Uses	Balance
8/31/2023	Ending Balance			\$ 6,211,774.64
8/31/2023	August Pension Payments		(3,111,944.03)	3,099,830.61
8/31/2023	Retiree Medical Premiums	29,733.44		3,129,564.05
8/31/2023	Retiree Medical Premiums Wired to City		(29,733.44)	3,099,830.61
9/1/2023	Interest	21,626.99		3,121,457.60
9/5/2023	Sweep from Fidelity Core FI	48.03		3,121,505.63
9/11/2023	Payroll Contributions	1,047,323.38		4,168,829.01
9/14/2023	Redeposit of Pension Check	727.88		4,169,556.89
9/14/2023	Reissue of Pension Check		(727.88)	4,168,829.01
9/15/2023	transfer from Fidelity S&P 300 Index Fund	5,600,000.00		9,768,829.01
9/15/2023	transfer from MFS Growth Fund	1,600,000.00		11,368,829.01
9/18/2023	Redeposit of Pension Check	1,399.04		11,370,228.05
9/18/2023	Distribution from Royalty Opps II	12,857.14		11,383,085.19
9/19/2023	transfer to Loomis Fixed Income		(3,100,000.00)	8,283,085.19
9/19/2023	transfer to Sterling Core Fixed Income		(3,100,000.00)	5,183,085.19
9/19/2023	transfer to Loomis Fixed Income		(500,000.00)	4,683,085.19
9/19/2023	transfer to Sterling Core Fixed Income		(500,000.00)	4,183,085.19
9/25/2023	Payroll Contributions	1,069,850.46		5,252,935.65
9/27/2023	Reissue of Pension Check		(1,308.78)	5,251,626.87
9/27/2023	Ending Balance			\$ 5,251,626.87
Upcoming				
9/29/2023	September Pension Payments		(3,080,018.75)	