

Spokane Employees' Retirement System (SERS)
Board Meeting, 1:30 p.m. June 24, 2015
City Hall - Conference Room 5A

AGENDA

- 1) Moss Adams – December 31, 2014 Audit Report
 - Information
- 2) Minutes of the May 27, 2015 Meeting
 - Motion
- 3) Directors Report
 - a. Retirements
 - Motion
 - b. Withdrawals
 - Motion
 - c. Deaths
 - Information
 - d. Expenditure Summary Report – May 2015
 - Motion
 - e. Schedule of Investments – May 2015
 - Information
 - f. Education Opportunities
 - Discussion
 - g. Other Business
4. Other Business
5. Next Meeting – **Wednesday, July 29 2015 at 1:30p.m.**

Spokane Employees' Retirement System (SERS)
Board Meeting Minutes
May 27, 2015

Mike Cavanaugh called the regular monthly meeting to order at 12:32 p.m. in the 5th Floor Conference Room at City Hall.

Present: Mike Cavanaugh, Jim Tieken, Jon Snyder, Jerry McFarlane, Dean Kiefer, and Brian Brill

Absent: Mike Coster

Staff: Phill Tencick, Donald Brown, and Tim Szambelan

Guests: Jayson Davidson, Brian Loescher, Bob Olsen, Joe Cavanaugh, Natalie Hilderbrand, Richard Czernik, and John Bjork

Election Results and Appointment of Board Member

Mike Cavanaugh shared the results of the SERS Board election, held on May 12, 2015, noting Jim Tieken won the election. He also referenced Mike Coster's e-mail to the Board that appointed Jim Tieken to fill the remainder of Bill Todd's term.

Jayson Davidson, Hyas Group, 2015 1st Qtr Investment Performance Report

Mr. Davidson reviewed the First Quarter 2015 Performance Report and discussed the SERS portfolio performance for the quarter and longer-time periods.

The managers currently on watch status for performance in violation of policy criteria are Champlain Small Cap Fund, Epoch International Small Cap Fund, Metropolitan West High Yield Fund, and Sterling Mid Cap Value Fund. The Post Limited-Term High Yield Fund, Principal Global Investors REIT Fund, and PIMCO Global Advantage Bond Fund will also remain on watch status for non-performance, qualitative reasons related to recent personnel changes.

Mr. Davidson distributed a Hyas drafted communication regarding the ending of the firm's blanket watch status for all PIMCO products. Hyas Group recommended removing the watch status that was in place on the PIMCO Commodities Plus Fund.

Jon Snyder moved and Jerry McFarlane seconded the motion to remove the PIMCO Commodities Plus Fund from watch status. The motion passed unanimously.

Hyas Group recommended rebalancing the portfolio to bring allocations closer to policy targets moving overweight positions in Mid Cap equities to commodities.

Jim Tieken moved and Brian Brill seconded the motion to transfer \$6M from Mid

Cap equity, equally from each of the three managers, to the commodities asset class. The motion passed unanimously. Hyas Group will work with Retirement Department staff to implement this transfer.

High Yield Bond Manager Search

Mr. Loescher reviewed the comprehensive High Yield Manager Search Report and presented several alternative managers for the replacement of the Metropolitan West High Yield Fund. A white paper prepared by Mr. Tencick was also reviewed. After a lengthy discussion, it was recommended that SERS transition from the Metropolitan West option to the Hotchkis & Wiley High Yield Fund.

Jon Snyder moved and Dean Kiefer seconded the motion to terminate the Met West High Yield Fund and replace it with the Hotchkis & Wiley High Yield Fund. The motion passed unanimously. Hyas Group will work with Retirement Department staff to implement the change.

International Small Cap Search

The International Small Cap search was deferred until the next quarterly performance review with Hyas.

Minutes of the April 29, 2015 Meeting

Mike Cavanaugh asked for the minutes to clarify that while the discount rate dropped because of the implementation of GASB 67, the assumed rate of return did not change. Dean Kiefer asked for the immediate priorities that Mr. Tencick listed to be included in the minutes. Staff will amend the minutes to include both of those changes.

Jon Snyder moved and Dean Kiefer seconded the motion to approve the minutes of the April 29, 2015 meeting as amended. The motion passed unanimously.

Director's Report
Service Retirements

Name	Age	Retirement Date	Years of Service	Option
Bruce K. Vails	53	05/06/2015	21.3	ST
Briana L. Bradley	60	05/08/2015	20.1	ST
Michelle M. Stanton	60	06/06/2015	25.0	ST
James A. Bond	62	06/06/2015	28.3	E
Steven D. Harvey	62	07/03/2015	13.4	ST
Janet M. Fitzpatrick	62	07/07/2015	7.4	E
John W. Miller	61	07/07/2015	34.1	D
Wayne W. Johnson	64	07/08/2015	22.1	E
Susan L. Hardie	61	07/17/2015	15.5	ST
Dennis R. Van Meter	50	08/11/2015	18.8	ST
Di V. Truong	65	09/01/2015	14.1	A

Jerry McFarlane moved and Jon Snyder seconded the motion to approve the service retirements as presented on the May Retirement Transaction Report. The motion passed unanimously.

Withdrawals for May 2015

Name	Years of Service	Termination Date
Joshua W. Clark	1.53	7/26/2013
David J. Ford	0.33	3/17/2015
Amir E. Talb	0.51	4/24/2015

Jim Tieken moved and Jon Snyder seconded the motion to approve the requests for withdrawal as presented on the May Retirement Transaction Report. The motion passed unanimously.

Deaths

Name	Date Retired	Age	Date of Death	Information
Marjorie E. Fisk	5/10/1986	91	5/1/2015	No Further Benefits
Erma B. Kembel	7/3/1992	89	5/8/2015	No Further Benefits
Claudia R. Bryan	2/18/2012	62	5/13/2015	No Further Benefits
Calvin D. Tucker	5/4/1993	81	5/13/2015	No Further Benefits

Death information provided to the Board for review.

Expenditure Summary Report – April 2015

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

Jim Tieken moved and Jerry McFarlane seconded the motion to approve the April 2015 Expenditure Summary Report. The motion passed unanimously.

Schedule of Investments – April 2015

The monthly investment report was presented to the Board for review. The estimated market value of the SERS portfolio on March 30, 2015 was \$289.7 million with an estimated rate of return from March of 0.44%.

Contribution Interest Rate Benchmark

At the April 2015 Board meeting, the Board asked Staff to develop a policy to set a benchmark for future interest rate changes. An analysis showed on average, withdrawals occurred after 4.5 to 5.0 years of service.

Jim Tieken moved and Jon Snyder seconded the motion to set the interest rate on employee contributions equal to the average daily interest rate for the 5-year US Treasury Note interest rate from the previous year. The motion passed unanimously. Staff will work on updating the Board Rules and the Spokane Municipal Code to incorporate this change, effective in 2016.

Electronic Board Packets

Staff brought up at the April Board meeting the distribution of electronic Board packets. Mr. Tencick proposed that the electronic packet would be sent out with the reminder that is emailed the day before and posting electronic copies of the packets on the website for guests. Paper packets would still be mailed to members of the Board.

Other Business

Mike Cavanaugh inquired on educational opportunities for Board members. Previously the budget has been larger in the past, but has been reduced in recent years. The Board asked Staff to increase the 2016 Budget for travel and education. Mr. Tencick will forward to the Board education opportunities as they are discovered.

There being no other business, the meeting adjourned at 2:20 p.m.

Phillip Tencick, Retirement Director

SERS Retirement Transaction Report

June 2015

Retirements

	Name	Age	Retirement Date	Years of Service	Option
1	Teresa R. Stapleton	52	05/28/2015	18.5	D
2	Gregory A. Charbonneau	64	06/03/2015	13.2	ST
3	Judy L. Eymont	64	08/04/2015	16.8	ST
4	Richard A. Cain	55	08/14/2015	22.3	E
5	Denis G. Desmarais	65	09/01/2015	4.1 portability	E

Retirements YTD 34

Withdrawals

	Name	Years of Service	Termination Date
1	John P. Brennan	4.48	7/4/2013
2	Shannon G. Walden	0.24	4/2/2015
3	Douglas E. Normandeau	0.10	4/6/2015
4	Maksim Y. Yuryev	2.75	6/2/2015

Deaths

	Name	Date Retired	Age	Date of Death	Information
1	Eileen L. Parkey	7/24/1994	98	5/28/2015	No Further Benefits
2	Dale A. Johnson	12/3/2006	74	5/31/2015	D Option Continues
3	Alexander M. Schmall	12/3/2005	75	6/1/2015	No Further Benefits
4	Steven L. Haynes	7/18/2009	62	6/3/2015	D Option Continues
5	Wilbert O. Lenke	1/17/1989	85	6/3/2015	No Further Benefits
6	Donald E. Witter	3/7/1987	79	6/7/2015	No Further Benefits
7	Jacob R. Greenaway	5/21/1983	95	6/8/2015	E Option Continues

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
 2015 EXPENDITURE SUMMARY REPORT
 MAY 31, 2015

	2014 ACTUAL	2015 BUDGET	MAY ACTUAL EXPENDITURES	2015 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
OPERATING EXPENDITURES						
Departmental Salaries	126,543.74	241,313.00	24,059.41	61,085.76	180,227.24	25.3%
Departmental Benefits	45,556.51	79,608.00	6,736.58	21,197.49	58,410.51	26.6%
Reserve for Budget Adjustment	-	20,000.00	-	-	20,000.00	0.0%
Administrative Income	(6,696.46)	(15,000.00)	-	(4,666.58)	-	-
Postage/Supplies/Other	11,773.73	18,700.00	641.06	6,153.03	12,546.97	32.9%
State Audit Charges	10,375.50	10,000.00	-	403.17	9,966.83	4.0%
Contractual Services	142,938.52	200,000.00	39,332.58	51,540.38	148,459.62	25.8%
Travel	2,559.37	15,000.00	-	-	15,000.00	0.0%
Registration/Schooling	400.00	10,000.00	-	-	10,000.00	0.0%
Other Dues/Subscriptions/Membership	1,013.20	2,500.00	-	263.20	2,236.80	10.5%
Other Miscellaneous Charges	2,837.20	4,370.00	61.00	299.23	4,070.77	6.8%
Depreciation & Amortization	18,525.92	-	-	-	-	-
TOTAL OPERATING EXPENDITURES	355,827.23	586,491.00	70,830.63	136,275.68	460,548.74	23.2%
INTERFUND EXPENDITURES						
Interfund - Accounting Central Services	3,150.20	3,052.00	-	1,390.90	1,661.10	45.6%
Interfund - IT Phones	1,935.21	1,512.00	128.36	514.78	997.22	34.0%
Interfund - IT Communications Replacement	288.96	241.00	20.08	80.32	160.68	33.3%
Interfund - Motor Pool	-	500.00	-	-	500.00	0.0%
Interfund - Risk Management	962.00	1,121.00	280.25	560.50	560.50	50.0%
Interfund - Unemployment	500.00	500.00	125.00	250.00	250.00	50.0%
Interfund - Worker's Compensation	86.00	78.00	19.50	39.00	39.00	50.0%
Interfund - IT	16,422.69	13,892.00	1,157.67	4,630.68	9,261.32	33.3%
Interfund - IT Replacement	4,209.00	3,584.00	298.67	1,194.68	2,389.32	33.3%
Interfund - Reprographics	2,346.95	2,000.00	194.63	1,592.12	407.88	79.6%
Interfund - Warrant Costs	986.00	1,500.00	-	-	1,500.00	0.0%
TOTAL INTERFUND EXPENDITURES	30,887.01	27,980.00	2,224.16	10,252.98	17,727.02	36.6%
TOTAL ADMINISTRATIVE EXPENDITURES	386,714.24	614,471.00	73,054.79	146,528.66	478,275.76	23.8%

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
 2015 EXPENDITURE SUMMARY REPORT
 MAY 31, 2015

	2014 ACTUAL	2015 BUDGET	MAY ACTUAL EXPENDITURES	2015 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
PENSIONS						
Pensions-Annuity Benefit Payments	20,659,575.08	21,800,000.00	1,837,922.60	9,058,070.01	12,741,929.99	41.6%
Pensions-Disability Payments	125,328.48	160,000.00	10,444.04	52,220.20	107,779.80	32.6%
Pensions-Survivor Annuity Benefits Payments	1,473,938.36	1,500,000.00	136,829.38	665,488.76	834,511.24	44.4%
TOTAL PENSIONS	<u>22,258,841.92</u>	<u>23,460,000.00</u>	<u>1,985,196.02</u>	<u>9,775,778.97</u>	<u>13,684,221.03</u>	
Refunds	625,184.41	1,200,000.00	11,502.42	422,531.94	777,468.06	35.2%
TOTAL EXPENSES	<u><u>23,270,740.57</u></u>	<u><u>25,274,471.00</u></u>	<u><u>2,069,753.23</u></u>	<u><u>10,344,839.57</u></u>	<u><u>14,939,964.85</u></u>	40.9%
INVESTMENT EXPENSE*						
Advisory Technical Service	373,109.86	500,000.00	28,004.26	125,794.10	374,205.90	25.2%

* 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
May 31, 2015

6/17/2015	Type	Market	Actual Allocation	Approved Allocation
Cash and Short-term Investments:				
Cash Held by Treasurer	Cash	\$ 229,119		
US Bank	Short-term Inv	<u>1,488,554</u>		
Total Cash and Short-term Investments		1,717,673	0.6%	1.0%
Fixed Income:				
Vanguard Short-Term	Total Return - Mutual Fund	8,897,816		
Metropolitan West	High Yield - Mutual Fund	11,012,648		
PIMCO Global	International- Mutual Fund	<u>12,791,482</u>		
Total Fixed Income		32,701,946	11.2%	15.0%
U.S. Equities:				
Hotchkis & Wiley	LC Value - Mutual Fund	17,656,011		
Delaware	LC Growth - Mutual Fund	15,937,646		
MFS Heritage	LC Core	16,921,705		
Vanguard S&P 500 Index	LC Core - Mutual Fund	8,134,208		
Sterling	MC Value	10,083,843		
Vanguard MC Growth	MC Growth - Mutual Fund	10,235,361		
Vanguard MC Index	MC Core - Mutual Fund	7,412,096		
Champlain	SC Core	4,975,664		
Phocas	SC Value - Mutual Fund	4,459,460		
Bridgecity	SC Growth	4,721,333		
Vanguard SC Index	SC Core - Mutual Fund	<u>2,497,206</u>		
Total U.S. Equities		103,034,533	35.2%	
International:				
Berens	Ltd Partnership	10,749,281		
Vanguard International	LC Index - Mutual Fund	999,407		
Euro Pacific	LC Blend - Mutual Fund	13,058,527		
Artisan	SMID Value - Mutual Fund	16,407,577		
Epoch	SC Value - Mutual Fund	<u>9,030,986</u>		
Total International		50,245,778	17.2%	
Total Global Equities			52.4%	50.0%
Alt Absolute Return Hedge:				
Altairis	LLC	5,855,194		
American Beacon	Mutual Fund	10,086,858		
Castine Capital I	Ltd Partnership	5,812,783		
Post Limited Term High Yield	Ltd Partnership	5,644,439		
Rimrock Low Volatility	Ltd Partnership	<u>9,078,400</u>		
Total Alt Absolute Return Hedge		36,477,674	12.5%	10.0%
Alt Long-Short Growth & Special Opps:				
Weatherlow Offshore	Ltd Partnership	14,790,767		
Caduceus (OrbiMed)	Ltd Partnership	11,149,954		
Royalty Opportunities I	Ltd Partnership	4,658,504		
Royalty Opportunities II	Ltd Partnership	305,000		
Troob	Ltd Partnership	3,672,519		
Beach Point	Ltd Partnership	<u>7,924,535</u>		
Total Alt Long-Short Growth & Special Opps		42,501,279	14.5%	14.0%
Real Estate:				
Legacy Partners Realty Fund III	Ltd Partnership	1,307,548		
Metropolitan Real Estate Partners	Ltd Partnership	1,225,486		
Morrison Street Fund IV	LLC	3,069,710		
Morrison Street Fund V	LLC	2,819,765		
Principal (REITs)	REITs	<u>11,013,421</u>		
Total Real Estate		19,435,930	6.6%	6.0%
PIMCO Commodites PLUS	Commodities - Mutual Fund	6,236,158	2.1%	4.0%
Total Cash and Investments		<u>\$ 292,350,971</u>	<u>100.0%</u>	<u>100.0%</u>
as of April 30, 2015	withdrawals	(450,000)		
		\$ 289,992,140		
	estimated rate of return		0.97%	

Organization	Program	Location	Dates	Cost	Travel	#	Membership	Notes
NCTR	Trustee Workshop	Boston	7/26/2015 - 7/29/2015	\$3,000	\$1,300			Teacher's retirement organization; still relevant
IFEBP/Wharton	Alternative Investment Strategies	San Francisco	7/27/15 - 7/29/2015	\$3,895	\$1,100			
NASRA	Annual Conference	Monterey, CA	8/1/15 - 8/5/2015		\$1,500		\$2,700	
IFEBP/Wharton	Refresher Workshop in Core Investment Concepts	Philadelphia	9/28/15 - 9/28/2015	\$495	\$200			with Advanced Investments Management (optional)
IFEBP/Wharton	Advanced Investments Management	Philadelphia	9/29/15 - 10/2/2015	\$5,095	\$1,300			Suitable for Dean, Brian, or if attended level 1
CII	Fall Conference	Boston	9/30/15 - 10/2/2015	\$0	\$1,100		\$4,000	Corporate Governance focus
NCTR	Annual Conference	La Jolla, CA	10/10/2015 - 10/15/2015	\$1,150	\$1,700		\$1,575	Teacher's retirement organization; still relevant
P2F2	Annual Conference	San Diego	10/25/15 - 10/28/2015	\$400	\$1,300	1	\$150	Christine attending
IFEBP	Trustee Masters Program	Honolulu	11/7/15 - 11/8/15	\$1,150	\$400			Optional with annual conference
IFEBP	Annual Employee Benefits Conference	Honolulu	11/8/15 - 11/11/2015	\$1,375	\$1,300		\$220	
NSIIP	Annual Conference	Dallas	11/16/2015 - 11/17/2015	\$0	\$900			Includes Trustee Training
IFEBP/Wharton	Portfolio Concepts and Management	Philadelphia	4/25/16 - 4/28/2016	\$5,095	\$900			Estimated Dates
CFA Institute	Annual Conference	Montreal	5/8/16 - 5/11/2016		\$1,300			
NCPERS	Trustee Education Summit	San Diego	5/14/2016 - 5/15/2016	\$400	\$400			Optional with Annual Conference
NCPERS	Annual Conference	San Diego	5/15/2016 - 5/19/2016	\$800	\$1,500		\$250	
Plan Sponsor	Annual Conference	TBD	6/1/2016 - 6/3/2016	\$0	\$1,100			Estimated Dates
NASP	Annual Conference	Atlanta	6/13/16 - 6/15/2016	\$150	\$1,100			

2015 Total	\$550	\$1,300
2015 Budget	\$10,000	\$10,000
2015 Difference	(\$9,450)	(\$8,700)
2016 Total	\$0	\$0
2016 Budget	\$15,000	\$15,000
2016 Difference	(\$15,000)	(\$15,000)

Additional Resources		
Benefits Link	Comprehensive Calendar	Online
IFEBP	Education Calendar	Online
CFA Institute Courses	Primer for Investment Trustees	Online