

Spokane Employees' Retirement System (SERS)
Board Meeting, 1:30 p.m. July 29, 2015
City Hall - Conference Room 5A

AGENDA

- 1) Minutes of the June 24, 2015 Meeting
 - Motion
- 2) SERS Vision
 - Discussion
- 3) Director's Report
 - a. Retirements
 - Motion
 - b. Withdrawals
 - Motion
 - c. Deaths
 - Information
 - d. Expenditure Summary Report – June 2015
 - Motion
 - e. Schedule of Investments – June 2015
 - Information
 - f. 2016 Budget
 - Discussion
 - g. Other Business
4. Other Business
5. Next Meeting – **Wednesday, August 26, 2015 at 12:30pm Jayson Davidson will present the 2nd quarter investment performance report**

Spokane Employees' Retirement System (SERS)
Board Meeting Minutes
June 24, 2015

Mike Coster called the regular monthly meeting to order at 1:30 p.m. in the 5th Floor Conference Room at City Hall.

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

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

Guests: Tammy Erickson, Joan Hamilton, Joe Cavanaugh, and Richard Czernik

Moss Adams – December 31, 2014 Audit Report

Moss Adams present the 2014 SERS independent audit report. The auditors explained how they test critical areas such as the investment assets, investment income, contributions, benefit payments and participant data. Moss Adams issued an unqualified (clean) opinion. They had no comments in the management letter, which is a reflection of the continuing efforts made by staff.

Minutes of the May 27, 2015 Meeting

Jerry McFarlane moved and Jon Snyder seconded the motion to approve the minutes of the May 27, 2015 meeting as presented. 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>
Teresa R. Stapleton	52	05/28/2015	18.5	D
Gregory A. Charbonneau	64	06/03/2015	13.2	ST
Judy L. Eymont	64	08/04/2015	16.8	ST
Richard A. Cain	55	08/14/2015	22.3	E
Denis G. Desmarais	65	09/01/2015	4.1 portability	E

Mike Cavanaugh moved and Jim Tieken seconded the motion to approve the service retirements as presented on the June Retirement Transaction Report. The motion passed unanimously.

Withdrawals for June 2015

<i>Name</i>	<i>Years of Service</i>	<i>Termination Date</i>
John P. Brennan	4.48	07/04/2013
Shannon G. Walden	0.24	04/02/2015
Douglas E. Normandeau	0.10	04/06/2015
Maksim Y. Yuryev	2.75	06/02/2015

Jon Snyder moved and Mike Cavanaugh seconded the motion to approve the requests for withdrawal as presented on the June 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>
Eileen L. Parkey	07/24/1994	98	05/28/2015	No Further Benefits
Dale A. Johnson	12/03/2006	74	05/31/2015	D Option Continues
Alexander M. Schmall	12/03/2005	75	06/01/2015	No Further Benefits
Steven L. Haynes	07/18/2009	62	06/03/2015	D Option Continues
Wilbert O. Lenke	01/17/1989	85	06/03/2015	No Further Benefits
Donald E. Witter	03/07/1987	79	06/07/2015	No Further Benefits
Jacob R. Greenaway	05/21/1983	95	06/08/2015	E Option Continues

Death information provided to the Board for review.

Expenditure Summary Report – May 2015

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

Jim Ticken moved and Jon Snyder seconded the motion to approve the May 2015 Expenditure Summary Report. The motion passed unanimously.

Schedule of Investments – May 2015

The monthly investment report was presented to the Board for review. The estimated market value of the SERS portfolio on May 31, 2015 was \$292.4 million with an estimated rate of return for May of 0.97%. Mr. Tencick updated the Board on the transition from Metropolitan West to the Hotchkis & Wiley High Yield Fund.

Education Opportunities

Mr. Tencick enclosed with the Board Packets a spreadsheet with education opportunities that are the most relevant to the Board. He invited the members of the Board to review the list and email their preference of what conferences they would like to attend.

Other Business

Mr. Tencick updated the Board on the progress of the RFP for Investment Consulting Services. The committee that is reviewing the responses will consist of

Mike Cavanaugh, Mike Coster, Jim Tieken, Mr. Tencick and Ms. Shisler. Thirteen companies responded, and Mr. Tencick would like to have the pool of candidates narrowed down to four to present the Board at the August meeting, with the goal of having those candidates come on-site for presentations in September.

Mr. Tencick informed the Board that he is planning to present at the July meeting a broader Strategic Vision for his position.

There being no other business, the meeting adjourned at 2:11 p.m.

Phillip Tencick, Retirement Director

DRAFT

Vision: Make the SERS' retirement benefit more valuable to its key stakeholders

- 1) How do we make the benefit more valuable?
 - a. Increase the benefit provided
 - b. Increase the perceived value of the benefit
 - c. Decrease the cost of providing the benefit, without diminishing the benefit

- 2) Who are the key stakeholders (in order of importance)?
 - a. Participants – Active and retired, ultimate recipients of the benefit
 - b. City of Spokane – Plan sponsor and employer, provides the benefit
 - c. Board – Fiduciaries and plan oversight
 - d. Staff – Plan administration

For everything we do, we must understand who it impacts and how they find it valuable!



Vision (1): The overarching mission and guiding philosophy with a long-term perspective

Strategies (4): The areas of focus for the intermediate-term that will allow us to achieve our vision

Goals (10): The specific, measurable actions that support each goal and are achievable in the short-term

Strategy 1 (Affordability): Improve the funding ratio faster than targeted under current glide path		
	Increased Benefit Value	Decreased Benefit Cost
Participants	Increased plan security	
City		Reduces City's unfunded liability, Improves plan affordability
Board	Improved fiduciary position	
Staff		
Goals: <ul style="list-style-type: none"> Award investment consultant contract by year end Complete asset allocation study in Q1 '16, targeting 7.5%+ return with lower risk Fully implement asset allocation within 6 months of Board approval 		

Strategy 2 (Education): Provide customized educational opportunities to all stakeholders		
	Increased Benefit Value	Decreased Benefit Cost
Participants	Improves retirement outcomes	
City	Demonstrates sustainability and affordability of retirement plan	Improves retention
Board	Improves governance	
Staff	Professional development	
Goals: <ul style="list-style-type: none"> • Develop educational agenda and message for each key stakeholder by year end • Deliver education on an ongoing basis through a variety of channels to maximize impact 		

Strategy 3 (Risk): Create a risk management program		
	Increased Benefit Value	Decreased Benefit Cost
Participants		Lowers chance of further plan redesigns
City	Improves affordability	Hedge events that coincide with city revenue decreases, Reduce tail risk
Board	Requires rewards for risks taken	Reduce tail risk
Staff		Lowers chance of further plan redesigns
Goals: <ul style="list-style-type: none"> • Identify and quantify risk factors before launch of asset allocation study • Develop reporting framework to track performance before asset allocation study 		

Strategy 4 (Customer Service): Continuously improve administrative processes		
	Increased Benefit Value	Decreased Benefit Cost
Participants	Improves customer service	
City		
Board	Improves oversight	
Staff		Streamlines processes and reduce rework
Goals: <ul style="list-style-type: none"> • Test and implement PeopleSoft upgrades • Complete building of employee history in PeopleSoft • Roll out PeopleSoft retirement calculator to participants 		

SERS Retirement Transaction Report

July 2015

Retirements

	Name	Age	Retirement Date	Years of Service	Option
1	Nancy L. McLaughlin	57	07/01/2015	8.0	E
2	Patrick S. Sheeks	50	07/07/2015	17.6	ST
3	Mark A. Barnett	50	07/19/2015	7.6	ST
4	Darrell H. Alvis	62	07/31/2015	5.0	ST
5	Judith M. Burke	55	08/03/2015	23.3	ST
6	Pedro M. Capiral	61	08/06/2015	23.4	E
7	Laurie A. Churchill	61	08/06/2015	25.0	ST
8	Daryl J. Wing	58	08/08/2015	23.6	E
9	Shannon M. Hallam	50	09/12/2015	15.7	ST
10	Roger W. Flint	50	11/09/2015	18.1	E

Retirements YTD 50

Withdrawals

	Name	Years of Service	Termination Date
1	Sheryl L. McGrath	3.41	06/03/2015
2	Donald P. Bushnell	4.66	06/15/2015
3	Carolyn J. Williams	9.46	07/03/2015
4	Barbara D. Rice	7.65	07/08/2015

Vesting

	Name	Department	Years of Service
1	Sherilee M. Van Zandt	Parks & Recreation	6.2

Deaths

	Name	Date Retired	Age	Date of Death	Information
1	Terry L. Montgomery	01/13/2012	63	07/09/2015	D Option Continues

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
2015 EXPENDITURE SUMMARY REPORT
JUNE 30, 2015

	2014 ACTUAL	2015 BUDGET	JUNE ACTUAL EXPENDITURES	2015 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
OPERATING EXPENDITURES						
Departmental Salaries	126,543.74	241,313.00	19,082.60	80,168.36	161,144.64	33.2%
Departmental Benefits	45,556.51	79,608.00	5,942.41	27,139.90	52,468.10	34.1%
Reserve for Budget Adjustment	-	20,000.00	-	-	20,000.00	0.0%
Administrative Income	(6,696.46)	(15,000.00)	(4,935.37)	(9,601.95)	(5,398.05)	
					-	
Postage/Supplies/Other	11,773.73	18,700.00	695.93	6,848.96	11,851.04	36.6%
State Audit Charges	10,375.50	10,000.00	1,327.77	1,730.94	8,269.06	17.3%
Contractual Services	142,938.52	200,000.00	25,000.00	76,540.38	123,459.62	38.3%
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	3,637.90	3,937.13	432.87	90.1%
Depreciation & Amortization	18,525.92	-	-	-	-	
TOTAL OPERATING EXPENDITURES	355,827.23	586,491.00	50,751.24	187,026.92	399,464.08	31.9%
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	129.72	644.50	867.50	42.6%
Interfund - IT Communications Replacement	288.96	241.00	20.08	100.40	140.60	41.7%
Interfund - Motor Pool	-	500.00	-	-	500.00	0.0%
Interfund - Risk Management	962.00	1,121.00	-	560.50	560.50	50.0%
Interfund - Unemployment	500.00	500.00	-	250.00	250.00	50.0%
Interfund - Worker's Compensation	86.00	78.00	-	39.00	39.00	50.0%
Interfund - IT	16,422.69	13,892.00	1,157.67	5,788.35	8,103.65	41.7%
Interfund - IT Replacement	4,209.00	3,584.00	298.67	1,493.35	2,090.65	41.7%
Interfund - Reprographics	2,346.95	2,000.00	98.80	1,690.92	309.08	84.5%
Interfund - Warrant Costs	986.00	1,500.00	-	-	1,500.00	0.0%
TOTAL INTERFUND EXPENDITURES	30,887.01	27,980.00	1,704.94	11,957.92	16,022.08	42.7%
TOTAL ADMINISTRATIVE EXPENDITURES	386,714.24	614,471.00	52,456.18	198,984.84	415,486.16	32.4%

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
 2015 EXPENDITURE SUMMARY REPORT
JUNE 30, 2015

	2014 ACTUAL	2015 BUDGET	JUNE ACTUAL EXPENDITURES	2015 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
PENSIONS						
Pensions-Annuity Benefit Payments	20,659,575.08	21,800,000.00	1,844,107.25	10,902,177.26	10,897,822.74	50.0%
Pensions-Disability Payments	125,328.48	160,000.00	10,444.04	62,664.24	97,335.76	39.2%
Pensions-Survivor Annuity Benefits Payments	1,473,938.36	1,500,000.00	136,874.18	802,362.94	697,637.06	53.5%
TOTAL PENSIONS	<u>22,258,841.92</u>	<u>23,460,000.00</u>	<u>1,991,425.47</u>	<u>11,767,204.44</u>	<u>11,692,795.56</u>	
Refunds	625,184.41	1,200,000.00	56,108.25	478,640.19	721,359.81	39.9%
TOTAL EXPENSES	<u><u>23,270,740.57</u></u>	<u><u>25,274,471.00</u></u>	<u><u>2,099,989.90</u></u>	<u><u>12,444,829.47</u></u>	<u><u>12,829,641.53</u></u>	49.2%
INVESTMENT EXPENSE*						
Advisory Technical Service	373,109.86	500,000.00	35,675.83	161,469.93	338,530.07	32.3%

* 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
June 30, 2015

7/22/2015	Type	Market	Actual Allocation	Approved Allocation
Cash and Short-term Investments:				
Cash Held by Treasurer	Cash	\$ 146,130		
US Bank	Short-term Inv	<u>1,657,134</u>		
Total Cash and Short-term Investments		1,803,264	0.6%	1.0%
Fixed Income:				
Vanguard Short-Term	Total Return - Mutual Fund	9,289,225		
Hotchkis & Wiley	High Yield - Mutual Fund	10,848,198		
PIMCO Global	International- Mutual Fund	<u>12,704,836</u>		
Total Fixed Income		32,842,259	11.3%	15.0%
U.S. Equities:				
Hotchkis & Wiley	LC Value - Mutual Fund	17,328,845		
Delaware	LC Growth - Mutual Fund	15,749,370		
MFS Heritage	LC Core	16,693,837		
Vanguard S&P 500 Index	LC Core - Mutual Fund	7,977,259		
Sterling	MC Value	8,488,025		
Vanguard MC Growth	MC Growth - Mutual Fund	8,150,069		
Vanguard MC Index	MC Core - Mutual Fund	5,314,416		
Champlain	SC Core	5,116,792		
Phocas	SC Value - Mutual Fund	4,446,508		
Bridgecity	SC Growth	4,833,645		
Vanguard SC Index	SC Core - Mutual Fund	<u>2,475,513</u>		
Total U.S. Equities		96,574,279	33.3%	
International:				
Berens	Ltd Partnership	10,714,486		
Vanguard International	LC Index - Mutual Fund	971,991		
Euro Pacific	LC Blend - Mutual Fund	12,822,208		
Artisan	SMID Value - Mutual Fund	15,239,525		
Epoch	SC Value - Mutual Fund	<u>8,971,494</u>		
Total International		48,719,704	16.8%	
Total Global Equities			50.2%	50.0%
Alt Absolute Return Hedge:				
Altairis	LLC	5,899,624		
American Beacon	Mutual Fund	10,010,095		
Castine Capital I	Ltd Partnership	5,812,783		
Post Limited Term High Yield	Ltd Partnership	5,627,494		
Rimrock Low Volatility	Ltd Partnership	<u>9,095,744</u>		
Total Alt Absolute Return Hedge		36,445,740	12.6%	10.0%
Alt Long-Short Growth & Special Opps:				
Weatherlow Offshore	Ltd Partnership	14,984,385		
Caduceus (OrbiMed)	Ltd Partnership	11,209,841		
Royalty Opportunities I	Ltd Partnership	4,508,923		
Royalty Opportunities II	Ltd Partnership	305,000		
Troob	Ltd Partnership	3,679,127		
Beach Point	Ltd Partnership	<u>7,841,933</u>		
Total Alt Long-Short Growth & Special Opps		42,529,209	14.7%	14.0%
Real Estate:				
Legacy Partners Realty Fund III	Ltd Partnership	1,307,548		
Metropolitan Real Estate Partners	Ltd Partnership	1,225,499		
Morrison Street Fund IV	LLC	2,999,207		
Morrison Street Fund V	LLC	4,140,619		
Principal (REITs)	REITs	<u>9,272,750</u>		
Total Real Estate		18,945,623	6.5%	6.0%
PIMCO Commodites PLUS	Commodities - Mutual Fund	11,781,300	4.1%	4.0%
Total Cash and Investments		<u>\$ 289,641,378</u>	<u>100.0%</u>	<u>100.0%</u>
as of May 31, 2015	withdrawals	(900,000)		
		\$ 292,350,971		
	estimated rate of return	-0.62%		

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
2016 PRELIMINARY BUDGET

	2014 ACTUAL	6/2015 YTD ACTUALS	2015 BUDGET	2016 BUDGET	2016 BUDGET CHANGE
REVENUES					
IF Other General Gov't Services	\$ 6,696.46	\$ 9,601.95	\$ 15,000.00	\$ 10,000.00	\$ (5,000.00)
Investment Interest/Dividends	6,745,143.17	1,806,575.25	4,500,000.00	5,000,000.00	500,000.00
Realized Gains/Losses	12,734,238.82	4,749,571.75	-	-	-
Unrealized Gains/Losses	(4,608,370.69)	2,808,330.94	-	-	-
City Contributions	6,806,471.24	3,642,852.32	7,200,000.00	7,300,000.00	100,000.00
Mandatory Contributions Employees	6,806,471.24	3,642,852.32	7,200,000.00	7,300,000.00	100,000.00
Voluntary Contributions Employees	-	3,960.04	30,000.00	-	(30,000.00)
PFD Employer Contributions	15,807.76	9,074.91	15,000.00	18,000.00	3,000.00
PFD Employee Contributions	15,807.76	9,074.91	15,000.00	18,000.00	3,000.00
TOTAL REVENUES	28,522,265.76	16,681,894.39	18,975,000.00	19,646,000.00	671,000.00
OPERATING EXPENDITURES					
Departmental Salaries	126,543.74	80,168.36	241,313.00	269,128.00	27,815.00
Departmental Benefits	45,556.51	27,139.90	79,608.00	89,334.00	9,726.00
Postage/Supplies/Other	11,773.73	6,848.96	18,700.00	15,500.00	(3,200.00)
State Audit Charges	10,375.50	1,730.94	10,000.00	10,000.00	-
Contractual Services	142,938.52	76,540.38	200,000.00	150,000.00	(50,000.00)
Travel	2,559.37	-	15,000.00	15,000.00	-
Registration/Schooling	400.00	-	10,000.00	15,000.00	5,000.00
Other Dues/Subscriptions/Membership	1,013.20	263.20	2,500.00	2,500.00	-
Other Miscellaneous Charges	2,837.20	3,937.13	4,370.00	2,720.00	(1,650.00)
Depreciation/Amortization	18,525.92	-	-	-	-
TOTAL OPERATING EXPENDITURES	362,523.69	196,628.87	581,491.00	569,182.00	(12,309.00)

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
2016 PRELIMINARY BUDGET

	2014 ACTUAL	6/2015 YTD ACTUALS	2015 BUDGET	2016 BUDGET	2016 BUDGET CHANGE
INTERFUND EXPENDITURES					
Interfund - Accounting Central Services	3,150.20	1,390.90	3,052.00	2,407.00	(645.00)
Interfund - IT Phones	1,935.21	644.50	1,512.00	1,490.00	(22.00)
Interfund - IT Communications Replacement	288.96	100.40	241.00	-	(241.00)
Interfund - Motor Pool	-	-	500.00	-	(500.00)
Interfund - Risk Management	962.00	560.50	1,121.00	991.00	(130.00)
Interfund - Unemployment	500.00	250.00	500.00	-	(500.00)
Interfund - Worker's Compensation	86.00	39.00	78.00	198.00	120.00
Interfund - IT	16,422.69	5,788.35	13,892.00	13,679.00	(213.00)
Interfund - IT Replacement	4,209.00	1,493.35	3,584.00	1,923.00	(1,661.00)
Interfund - Reprographics	2,346.95	1,690.92	2,000.00	2,500.00	500.00
Interfund - Warrant Costs	986.00	-	1,500.00	-	(1,500.00)
TOTAL INTERFUND EXPENDITURES	30,887.01	11,957.92	27,980.00	23,188.00	(4,792.00)
TOTAL ADMINISTRATIVE EXPENDITURES	393,410.70	208,586.79	609,471.00	592,370.00	(17,101.00)
PENSIONS					
Pensions-Annuity Benefit Payments	20,659,575.08	10,902,177.26	21,800,000.00	24,000,000.00	2,200,000.00
Pensions-Disability Payments	125,328.46	62,664.24	160,000.00	160,000.00	-
Pensions-Survivor Annuity Benefits Payments	1,473,938.36	802,362.94	1,500,000.00	1,600,000.00	100,000.00
TOTAL PENSIONS	22,258,841.90	11,767,204.44	23,460,000.00	25,760,000.00	2,300,000.00
Refunds	625,184.41	478,640.19	1,200,000.00	1,000,000.00	(200,000.00)
Reserve for Budget Adjustment	-	-	20,000.00	10,000.00	(10,000.00)
INVESTMENT EXPENSE					
Advisory Technical Service	373,109.86	161,469.96	500,000.00	450,000.00	(50,000.00)