

Spokane Employees' Retirement System (SERS)
Board Meeting, 12:30 p.m. August 26, 2015
City Hall - Conference Room 5A

AGENDA

1. Jayson Davidson, Hyas Group – 2015 2nd Quarter Investment Performance Report
 - Information
2. Remove Post Limited-Term High Yield Fund from watch status
 - Motion
3. International Small Cap Manager Search
 - Motion
4. Minutes of the July 29, 2015 Meeting
 - Motion
5. Director's Report
 - a. Retirements
 - Motion
 - b. Withdrawals
 - Motion
 - c. Vesting
 - Information
 - d. Deaths
 - Information
 - e. Expenditure Summary Report – July 2015
 - Motion
 - f. Schedule of Investments – July 2015
 - Information
 - g. 2016 Budget
 - Motion
 - h. Other Business
6. Other Business
7. Next Meeting – **Wednesday, September 30, 2015 at 1:30 p.m.**

**Spokane Employees' Retirement System (SERS)
Board Meeting Minutes
July 29, 2015**

Mike Coster called the regular monthly meeting to order at 1:28 p.m. in the 5th Floor Conference Room at City Hall.

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

Absent: Brian Brill

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

Guests: Joe Cavanaugh, Bob Olson, Richard Czernik, Natalie Hilderbrand, and John Bjork

Minutes of the June 24, 2015 Meeting

Jon Snyder moved and Dean Kiefer seconded the motion to approve the minutes of the June 24, 2015 meeting as presented. The motion passed unanimously.

Jerry McFarlane arrived at 1:30 p.m.

Director's Report

SERS Vision

Mr. Tencick gave a presentation on his vision for SERS, the strategies that support the vision, and the goals that will achieve the vision. The proposed vision was to "Make the SERS retirement benefit more valuable to its key stakeholders." The strategies focused on the affordability of the plan, the education provided to stakeholders, risk management, and customer service. Discussion occurred regarding how to define the key stakeholders, the importance of education, and establishing the goals. The presentation will be revised and presented for further discussion at a future meeting.

Service Retirements

| <i>Name</i> | <i>Age</i> | <i>Retirement Date</i> | <i>Years of Service</i> | <i>Option</i> |
|---------------------|------------|----------------------------|-----------------------------|---------------|
| Nancy L. McLaughlin | 57 | 07/01/2015 | 8.0 | E |
| Patrick S. Sheeks | 50 | 07/07/2015 | 17.6 | ST |
| Mark A. Barnett | 50 | 07/19/2015 | 7.6 | ST |
| Darrell H. Alvis | 62 | 07/31/2015 | 5.0 | ST |
| Judith M. Burke | 55 | 08/03/2015 | 23.3 | ST |
| Pedro M. Capiral | 61 | 08/06/2015 | 23.4 | E |
| Laurie A. Churchill | 61 | 08/06/2015 | 25.0 | ST |

| | | | | |
|-------------------|----|------------|------|----|
| Daryl J. Wing | 58 | 08/08/2015 | 23.6 | E |
| Shannon M. Hallam | 50 | 09/12/2015 | 15.7 | ST |
| Roger W. Flint | 50 | 11/09/2015 | 18.1 | E |

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

Withdrawals for July 2015

| <i>Name</i> | <i>Years of Service</i> | <i>Termination Date</i> |
|---------------------|-------------------------|-------------------------|
| Sheryl L. McGrath | 3.4 | 06/03/2015 |
| Donald P. Bushnell | 4.7 | 06/15/2015 |
| Carolyn J. Williams | 9.5 | 07/03/2015 |
| Barbara D. Rice | 7.7 | 07/08/2015 |
| Gary C. Carrier | 14.5 | 07/17/2015 |

Mike Cavanaugh moved and Jerry McFarlane seconded the motion to approve the requests for withdrawal as presented on the July Retirement Transaction Report. The motion passed unanimously.

Vesting

| <i>Name</i> | <i>Department</i> | <i>Years of Service</i> |
|-----------------------|--------------------|-------------------------|
| Sherilee M. Van Zandt | Parks & Recreation | 6.2 |

Deaths

| <i>Name</i> | <i>Date Retired</i> | <i>Age</i> | <i>Date of Death</i> | <i>Information</i> |
|---------------------|---------------------|------------|----------------------|--------------------|
| Terry L. Montgomery | 01/13/2012 | 63 | 07/09/2015 | D Option Continues |

Vesting and death information provided to the Board for review.

Expenditure Summary Report – June 2015

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

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

Schedule of Investments – June 2015

The monthly investment report was presented to the Board for review. The estimated market value of the SERS portfolio on June 30, 2015 was \$292.4 million with an estimated rate of return for June of -0.62%.

2016 Budget

The 2016 Budget was presented to the Board and discussed. The SERS Board is expected to vote on the budget at the August Board meeting.

Other Business

Mr. Tencick updated the Board on the status of the Investment Consultant RFP. The committee is currently reviewing and scoring the thirteen responses that were received. Mr. Tencick would like to have the list narrowed down to 3 – 4 to present to the Board by the October meeting. The goal is to have the consulting firm selected by year-end, when the current Investment Consultant contract expires.

The RFP for a Financial Auditor is expected to be sent out in August. The response is expected to be smaller than the Investment Consultant RFP and the final selection will be by year-end.

There being no other business, the meeting adjourned at 2:48 p.m.

Phillip Tencick, Retirement Director

SERS Retirement Transaction Report

August 2015

Retirements

| | Name | Age | Retirement Date | Years of Service | Option |
|---|-------------------|------------|------------------------|-------------------------|---------------|
| 1 | Eddie L. Mitchell | 62 | 08/02/2015 | 7.0 | ST |
| 2 | Duane H. Hille | 50 | 09/03/2015 | 5.8 | E |
| 3 | Timothy J. Ryan | 59 | 10/02/2015 | 25.3 | ST |
| 4 | Robert A. Darilek | 50 | 10/03/2015 | 37.0 | E |
| | Retirements YTD | 59 | | | |

Withdrawals

| | Name | Years of Service | Termination Date |
|---|-----------------|-------------------------|-------------------------|
| 1 | Kathy A. Plager | 2.2 | 07/15/2015 |

Vesting

| | Name | Department | Years of Service |
|---|-----------------|-------------------|-------------------------|
| 1 | Grant A. Wencil | Planning Services | 5.1 |

Deaths

| | Name | Date Retired | Age | Date of Death | Information |
|---|-------------------|---------------------|------------|----------------------|---------------------|
| 1 | Harland D. Mason | 08/02/1989 | 91 | 07/30/2015 | No Further Benefits |
| 2 | Morris L. Gaylord | 01/05/1982 | 95 | 08/04/2015 | No Further Benefits |

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

| | 2014 ACTUAL | 2015 BUDGET | JULY ACTUAL EXPENDITURES | 2015 ACTUAL YTD EXPENDITURES | VARIANCE | PERCENTAGE USED |
|---|-------------------|-------------------|-----------------------------|------------------------------------|-------------------|--------------------|
| OPERATING EXPENDITURES | | | | | | |
| Departmental Salaries | 126,543.74 | 241,313.00 | 19,082.62 | 99,250.98 | 142,062.02 | 41.1% |
| Departmental Benefits | 45,556.51 | 79,608.00 | 5,941.66 | 33,081.56 | 46,526.44 | 41.6% |
| Reserve for Budget Adjustment | - | 20,000.00 | - | - | 20,000.00 | 0.0% |
| Administrative Income | (6,696.46) | (15,000.00) | | (9,601.95) | (5,398.05) | |
| Postage/Supplies/Other | 11,773.73 | 18,700.00 | 941.56 | 7,790.52 | 10,909.48 | 41.7% |
| State Audit Charges | 10,375.50 | 10,000.00 | - | 1,730.94 | 8,269.06 | 17.3% |
| Contractual Services | 142,938.52 | 200,000.00 | 8,000.00 | 84,540.38 | 115,459.62 | 42.3% |
| Travel | 2,559.37 | 15,000.00 | - | - | 15,000.00 | 0.0% |
| Registration/Schooling | 400.00 | 10,000.00 | 400.00 | 400.00 | 9,600.00 | 4.0% |
| 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 | 227.71 | 4,164.84 | 205.16 | 95.3% |
| Depreciation & Amortization | 18,525.92 | - | - | - | - | |
| TOTAL OPERATING EXPENDITURES | 355,827.23 | 586,491.00 | 34,593.55 | 221,620.47 | 364,870.53 | 37.8% |
| INTERFUND EXPENDITURES | | | | | | |
| Interfund - Accounting Central Services | 3,150.20 | 3,052.00 | 695.45 | 2,086.35 | 965.65 | 68.4% |
| Interfund - IT Phones | 1,935.21 | 1,512.00 | 128.53 | 773.03 | 738.97 | 51.1% |
| Interfund - IT Communications Replacement | 288.96 | 241.00 | 20.08 | 120.48 | 120.52 | 50.0% |
| 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 | 6,946.02 | 6,945.98 | 50.0% |
| Interfund - IT Replacement | 4,209.00 | 3,584.00 | 298.67 | 1,792.02 | 1,791.98 | 50.0% |
| Interfund - Reprographics | 2,346.95 | 2,000.00 | 73.72 | 1,764.64 | 235.36 | 88.2% |
| Interfund - Warrant Costs | 986.00 | 1,500.00 | - | - | 1,500.00 | 0.0% |
| TOTAL INTERFUND EXPENDITURES | 30,887.01 | 27,980.00 | 2,374.12 | 14,332.04 | 13,647.96 | 51.2% |
| TOTAL ADMINISTRATIVE EXPENDITURES | 386,714.24 | 614,471.00 | 36,967.67 | 235,952.51 | 378,518.49 | 38.4% |

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

| | 2014 ACTUAL | 2015 BUDGET | JULY ACTUAL EXPENDITURES | 2015 ACTUAL YTD EXPENDITURES | VARIANCE | PERCENTAGE USED |
|---|-----------------------------|-----------------------------|-----------------------------|------------------------------------|-----------------------------|--------------------|
| PENSIONS | | | | | | |
| Pensions-Annuity Benefit Payments | 20,659,575.08 | 21,800,000.00 | 1,852,698.44 | 12,754,875.70 | 9,045,124.30 | 58.5% |
| Pensions-Disability Payments | 125,328.48 | 160,000.00 | 10,444.04 | 73,108.28 | 86,891.72 | 45.7% |
| Pensions-Survivor Annuity Benefits Payments | 1,473,938.36 | 1,500,000.00 | 139,480.48 | 941,843.42 | 558,156.58 | 62.8% |
| TOTAL PENSIONS | <u>22,258,841.92</u> | <u>23,460,000.00</u> | <u>2,002,622.96</u> | <u>13,769,827.40</u> | <u>9,690,172.60</u> | |
| Refunds | 625,184.41 | 1,200,000.00 | 120,027.05 | 598,667.24 | 601,332.76 | 49.9% |
| TOTAL EXPENSES | <u><u>23,270,740.57</u></u> | <u><u>25,274,471.00</u></u> | <u><u>2,159,617.68</u></u> | <u><u>14,604,447.15</u></u> | <u><u>10,670,023.85</u></u> | 57.8% |
| INVESTMENT EXPENSE* | | | | | | |
| Advisory Technical Service | 373,109.86 | 500,000.00 | 44,688.34 | 206,158.27 | 293,841.73 | 41.2% |

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

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
2016 PRELIMINARY BUDGET

| | 2014 ACTUAL | 7/2015 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 | 2,095,934.11 | 4,500,000.00 | 5,000,000.00 | 500,000.00 |
| Realized Gains/Losses | 12,734,238.82 | 5,550,858.44 | - | - | - |
| Unrealized Gains/Losses | (4,608,370.69) | 1,920,387.96 | - | - | - |
| City Contributions | 6,806,471.24 | 4,209,878.21 | 7,200,000.00 | 7,300,000.00 | 100,000.00 |
| Mandatory Contributions Employees | 6,806,471.24 | 4,209,878.21 | 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 | 10,471.05 | 15,000.00 | 18,000.00 | 3,000.00 |
| PFD Employee Contributions | 15,807.76 | 10,471.05 | 15,000.00 | 18,000.00 | 3,000.00 |
| TOTAL REVENUES | 28,522,265.76 | 18,021,441.02 | 18,975,000.00 | 19,646,000.00 | 671,000.00 |
| OPERATING EXPENDITURES | | | | | |
| Departmental Salaries | 126,543.74 | 99,250.98 | 241,313.00 | 273,580.00 | 32,267.00 |
| Departmental Benefits | 45,556.51 | 33,081.56 | 79,608.00 | 79,385.00 | (223.00) |
| Postage/Supplies/Other | 11,773.73 | 7,790.52 | 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 | 84,540.38 | 200,000.00 | 150,000.00 | (50,000.00) |
| Travel | 2,559.37 | - | 15,000.00 | 15,000.00 | - |
| Registration/Schooling | 400.00 | 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 | 4,164.84 | 4,370.00 | 2,720.00 | (1,650.00) |
| Depreciation/Amortization | 18,525.92 | - | - | - | - |
| TOTAL OPERATING EXPENDITURES | 362,523.69 | 231,222.42 | 581,491.00 | 563,685.00 | (17,806.00) |

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
2016 PRELIMINARY BUDGET

| | 2014 ACTUAL | 7/2015 YTD ACTUALS | 2015 BUDGET | 2016 BUDGET | 2016 BUDGET CHANGE |
|---|-------------------------|-------------------------|-------------------------|-------------------------|------------------------|
| INTERFUND EXPENDITURES | | | | | |
| Interfund - Accounting Central Services | 3,150.20 | 2,086.35 | 3,052.00 | 2,407.00 | (645.00) |
| Interfund - IT Phones | 1,935.21 | 773.03 | 1,512.00 | 1,490.00 | (22.00) |
| Interfund - IT Communications Replacement | 288.96 | 120.48 | 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 | 6,946.02 | 13,892.00 | 13,679.00 | (213.00) |
| Interfund - IT Replacement | 4,209.00 | 1,792.02 | 3,584.00 | 1,923.00 | (1,661.00) |
| Interfund - Reprographics | 2,346.95 | 1,764.64 | 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 | 14,332.04 | 27,980.00 | 23,188.00 | (4,792.00) |
| TOTAL ADMINISTRATIVE EXPENDITURES | 393,410.70 | 245,554.46 | 609,471.00 | 586,873.00 | (22,598.00) |
| PENSIONS | | | | | |
| Pensions-Annuity Benefit Payments | 20,659,575.08 | 12,754,875.70 | 21,800,000.00 | 24,000,000.00 | 2,200,000.00 |
| Pensions-Disability Payments | 125,328.46 | 73,108.28 | 160,000.00 | 160,000.00 | - |
| Pensions-Survivor Annuity Benefits Payments | 1,473,938.36 | 941,843.42 | 1,500,000.00 | 1,600,000.00 | 100,000.00 |
| TOTAL PENSIONS | 22,258,841.90 | 13,769,827.40 | 23,460,000.00 | 25,760,000.00 | 2,300,000.00 |
| Refunds | 625,184.41 | 598,667.24 | 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 EXPENDITURES | | | | | |
| Advisory Technical Service | 373,109.86 | 206,158.27 | 500,000.00 | 450,000.00 | (50,000.00) |
| Total Department Expenditures | \$ 23,650,546.87 | \$ 14,820,207.37 | \$ 25,789,471.00 | \$ 27,806,873.00 | \$ 2,017,402.00 |

SERS Schedule of Cash and Investments

July 31, 2015

| 8/19/2015 | Type | Market | Actual Allocation | Approved Allocation |
|--|----------------------------|--------------------------|----------------------|------------------------|
| Cash and Short-term Investments: | | | | |
| Cash Held by Treasurer | Cash | \$ 129,210 | | |
| US Bank | Short-term Inv | <u>1,547,709</u> | | |
| Total Cash and Short-term Investments | | 1,676,919 | 0.6% | 1.0% |
| Fixed Income: | | | | |
| Vanguard Short-Term | Total Return - Mutual Fund | 9,380,126 | | |
| Hotchkis & Wiley | High Yield - Mutual Fund | 10,812,775 | | |
| PIMCO Global | International- Mutual Fund | <u>12,609,721</u> | | |
| Total Fixed Income | | 32,802,622 | 11.4% | 15.0% |
| U.S. Equities: | | | | |
| Hotchkis & Wiley | LC Value - Mutual Fund | 16,120,109 | | |
| Delaware | LC Growth - Mutual Fund | 16,092,298 | | |
| MFS Heritage | LC Core | 16,951,427 | | |
| Vanguard S&P 500 Index | LC Core - Mutual Fund | 8,144,401 | | |
| Sterling | MC Value | 8,455,210 | | |
| Vanguard MC Growth | MC Growth - Mutual Fund | 8,285,904 | | |
| Vanguard MC Index | MC Core - Mutual Fund | 5,380,045 | | |
| Champlain | SC Core | 5,094,917 | | |
| Phocas | SC Value - Mutual Fund | 4,446,508 | | |
| Bridgecity | SC Growth | 4,804,558 | | |
| Vanguard SC Index | SC Core - Mutual Fund | <u>2,468,283</u> | | |
| Total U.S. Equities | | 96,243,660 | 33.3% | |
| International: | | | | |
| Berens | Ltd Partnership | 10,572,693 | | |
| Vanguard International | LC Index - Mutual Fund | 966,508 | | |
| Euro Pacific | LC Blend - Mutual Fund | 12,839,995 | | |
| Artisan | SMID Value - Mutual Fund | 15,239,625 | | |
| Epoch | SC Value - Mutual Fund | <u>9,003,223</u> | | |
| Total International | | 48,622,044 | 16.8% | |
| Total Global Equities | | | 50.1% | 50.0% |
| Alt Absolute Return Hedge: | | | | |
| Altairis | LLC | 5,899,200 | | |
| American Beacon | Mutual Fund | 9,976,695 | | |
| Castine Capital I | Ltd Partnership | 5,866,656 | | |
| Post Limited Term High Yield | Ltd Partnership | 5,640,200 | | |
| Rimrock Low Volatility | Ltd Partnership | <u>9,116,920</u> | | |
| Total Alt Absolute Return Hedge | | 36,499,671 | 12.6% | 10.0% |
| Alt Long-Short Growth & Special Opps: | | | | |
| Weatherlow Offshore | Ltd Partnership | 14,966,849 | | |
| Caduceus (OrbiMed) | Ltd Partnership | 11,176,363 | | |
| Royalty Opportunities I | Ltd Partnership | 4,677,672 | | |
| Royalty Opportunities II | Ltd Partnership | 298,190 | | |
| Troob | Ltd Partnership | 3,709,709 | | |
| Beach Point | Ltd Partnership | <u>7,844,073</u> | | |
| Total Alt Long-Short Growth & Special Opps | | 42,672,856 | 14.8% | 14.0% |
| Real Estate: | | | | |
| Legacy Partners Realty Fund III | Ltd Partnership | 1,323,469 | | |
| Metropolitan Real Estate Partners | Ltd Partnership | 1,208,588 | | |
| Morrison Street Fund IV | LLC | 3,012,595 | | |
| Morrison Street Fund V | LLC | 4,769,145 | | |
| Principal (REITs) | REITs | <u>9,825,961</u> | | |
| Total Real Estate | | 20,139,758 | 7.0% | 6.0% |
| PIMCO Commodites PLUS | Commodities - Mutual Fund | 10,308,644 | 3.6% | 4.0% |
| Total Cash and Investments | | <u>\$ 288,966,174</u> | <u>100.0%</u> | <u>100.0%</u> |
| | | withdrawals | (1,000,000) | |
| as of June 30, 2015 | | \$ 289,641,378 | | |
| | | estimated rate of return | 0.11% | |