

Spokane Employees' Retirement System (SERS)

Board Meeting, 1:30 p.m. April 26, 2017

City Hall – Conference Room 5A

AGENDA

1. Minutes of the March 29, 2017 Meeting
 - Motion
2. Director's Report
 - a. Retirements
 - Motion
 - b. Withdrawals
 - Motion
 - c. Vesting
 - Information
 - d. Deaths
 - Information
 - e. Expenditure Summary Report – March 2017
 - Motion
 - f. Schedule of Investments – March 2017
 - Information
 - g. Cash Reconciliation – March 2017
 - Information
 - h. Draft Ethics Policy
 - Information
 - i. Other Business
3. Other Business
4. Next Meeting - **Wednesday, May 31, 2017 at 12:30 p.m.**

**Spokane Employees' Retirement System (SERS)
Board Meeting Minutes
March 29, 2017**

The regular monthly meeting was called to order at 1:32 p.m. in the 5th Floor Conference Room at City Hall.

Present: Mike Coster, Jim Tieken, Mike Cavanaugh, Candace Mumm, Dean Kiefer, and Brian Brill

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

Guests: Joe Cavanaugh, Natalie Hilderbrand, Joan Hamilton, Richard Czernik, Bob Olsen, J.D. Morscheck, and John Bjork

Mr. Tencick introduced Mr. J.D. Morscheck to the Board and guests. Mr. Morscheck briefly shared his background.

Minutes of the February 22, 2017 Meeting

Candace Mumm moved and Jim Tieken seconded the motion to approve the minutes of the February 22, 2017 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>
Robert D. Wall	66	04/04/2017	16.0	E
Scott M. Emmerson	50	04/23/2017	24.1	E
Daniel J. Hirst	70	04/29/2017	15.3	E
Lisa G. Porter	57	05/02/2017	19.4	ST
Margaret A. Schussler	66	05/06/2017	33.0	ST
Rebecca L. Davis	62	06/02/2017	20.2	ST
Wilford B. Hardy, Jr.	75	07/04/2017	19.2	D

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

Vesting

<i>Name</i>	<i>Department</i>	<i>Years of Service</i>
Robert Crow	CD/HS Operations	4.0 Portability

Deaths

<i>Name</i>	<i>Date Retired</i>	<i>Age</i>	<i>Date of Death</i>	<i>Information</i>
Margaret P. Bomben	07/30/2010	86	02/19/2017	No Further Benefits
Gerald J. Harnois	01/08/1999	81	02/21/2017	E Option Continues

Vesting and Death information provided to the Board for review.

Expenditure Summary Report – February 2017

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

Mike Cavanaugh moved and Jim Tieken seconded the motion to approve the February 2017 Expenditure Summary Report. The motion passed unanimously.

Schedule of Investments – February 2017

The monthly investment report was presented to the Board for review. The estimated market value of the SERS portfolio on February 28, 2017 was \$286 million with an estimated rate of return of 1.8% for the month.

Monthly Cash Reconciliation

The monthly cash reconciliation report was presented to provide the Board with additional insight into the ongoing liquidity and cash position of the plan.

OrbiMed Partners Review

Mr. Tencick presented a review of the OrbiMed Partners II investment's performance. The investment severely underperformed in 2016 and the factors and strategies contributing to the underperformance were discussed. Staff and the Hyas Group recommended placing the investment on watch for performance related reasons.

Dean Kiefer moved and Brian Brill seconded the motion to place OrbiMed Partners II on watch. The motion passed unanimously.

Ethics in Practice

Mr. Tencick led a discussion on ethics with the Board. The slides he prepared discussed ethic principles and contained practice exercises. The Board requested that a formal ethics policy be drafted for future review.

Other Business

There being no other business, the meeting adjourned at 2:44 p.m.

Phillip Tencick, Retirement Director

SERS Retirement Transaction Report

April 2017

Retirements

	Name	Age	Retirement Date	Years of Service	Department	Option
1	William J. Brown	50	04/18/2017	20.5	AWWTP	B
2	Joel K. Cook	50	04/19/2017	11.9	Water	E
	Retirements YTD	21				
	2016 Total Retirements	69				

Withdrawals

	Name	Years of Service	Department	Termination Date
1	Allen Simon	6.2	Community Centers	09/03/2004
2	Sarah P. Scott	1.0	Solid Waste Disposal	10/11/2016
3	Matthew E. Thordarson	0.2	Water	10/21/2016
4	Collin W. Maguire	0.6	Library	01/10/2017
5	Michael H. Morgan	0.4	Water	02/16/2017

Vesting

	Name	Department	Years of Service
1	Christopher L. King	Solid Waste Management	8.4
2	Sean M. Girard	Library	5.7

Deaths

	Name	Date Retired	Age	Date of Death	Information
1	Robert P. Willson	12/25/1983	94	03/30/2017	No Further Benefits
2	David H. Rodgers	02/01/1994	93	04/18/2017	No Further Benefits

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
2017 EXPENDITURE SUMMARY REPORT
MARCH 31, 2017

	2016 ACTUAL	2017 BUDGET	MARCH ACTUAL EXPENDITURES	2017 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
OPERATING EXPENDITURES						
Departmental Salaries	261,984.86	279,341.00	30,472.23	61,199.44	218,141.56	21.9%
Departmental Benefits	76,531.55	80,482.00	7,828.27	18,913.80	61,568.20	23.5%
Reserve for Budget Adjustment	-	10,000.00	-	-	10,000.00	0.0%
Administrative Income	(19,375.31)	(10,000.00)	(4,992.59)	(4,992.59)	(5,007.41)	
Postage/Supplies/Other	11,432.31	16,500.00	348.52	1,930.87	14,569.13	11.7%
State Audit Charges	11,172.03	12,000.00	311.56	577.27	11,422.73	4.8%
Contractual Services	80,222.66	173,475.00	3,000.00	3,000.00	170,475.00	1.7%
Travel	7,972.23	15,000.00	-	412.93	14,587.07	2.8%
Registration/Schooling	805.00	30,285.00	-	15,285.00	15,000.00	50.5%
Other Dues/Subscriptions/Membership	1,993.20	2,500.00	50.00	50.00	2,450.00	2.0%
Other Miscellaneous Charges	1,278.26	1,826.00	55.00	204.97	1,621.03	11.2%
Amortization	17,649.00	-	-	-	-	
TOTAL OPERATING EXPENDITURES	451,665.79	611,409.00	37,072.99	96,581.69	514,827.31	15.8%
INTERFUND EXPENDITURES						
Interfund - Centralized Accounting	2,303.96	2,347.00	-	586.73	1,760.27	25.0%
Interfund - IT Phones	1,505.77	1,451.00	131.47	255.98	1,195.02	17.6%
Interfund - IT Communications Replacement	-	-	-	-	-	-
Interfund - Risk Management	991.00	760.00	-	190.00	570.00	25.0%
Interfund - Unemployment	-	-	-	-	-	-
Interfund - Worker's Compensation	198.00	104.00	-	26.00	78.00	25.0%
Interfund - Reprographics	4,930.49	4,500.00	667.78	2,474.65	2,025.35	55.0%
Interfund - IT	12,980.37	14,078.00	1,173.17	2,346.34	11,731.66	16.7%
Interfund - IT Replacement	1,926.96	2,772.00	231.00	462.00	2,310.00	16.7%
Interfund - My Spokane	751.00	-	-	-	-	
TOTAL INTERFUND EXPENDITURES	25,587.55	26,012.00	2,203.42	6,341.70	19,670.30	24.4%
TOTAL ADMINISTRATIVE EXPENDITURES	477,253.34	637,421.00	39,276.41	102,923.39	534,497.61	16.1%

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
 2017 EXPENDITURE SUMMARY REPORT
MARCH 31, 2017

	2016 ACTUAL	2017 BUDGET	MARCH ACTUAL EXPENDITURES	2017 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
PENSIONS						
Pensions-Annuity Benefit Payments	23,765,712.64	26,000,000.00	2,044,050.60	6,101,071.40	19,898,928.60	23.5%
Pensions-Disability Payments	125,328.48	160,000.00	10,444.04	31,332.12	128,667.88	19.6%
Pensions-Survivor Annuity Benefits Payments	1,846,473.52	2,000,000.00	160,684.63	487,650.55	1,512,349.45	24.4%
TOTAL PENSIONS	<u>25,737,514.64</u>	<u>28,160,000.00</u>	<u>2,215,179.27</u>	<u>6,620,054.07</u>	<u>21,539,945.93</u>	23.5%
Refunds	729,741.16	1,000,000.00	-	1,833.77	998,166.23	0.2%
TOTAL EXPENSES	<u><u>26,944,509.14</u></u>	<u><u>29,797,421.00</u></u>	<u><u>2,254,455.68</u></u>	<u><u>6,724,811.23</u></u>	<u><u>23,072,609.77</u></u>	22.6%
INVESTMENT EXPENSE*						
Advisory Technical Service	380,964.60	450,000.00	33,849.78	42,388.19	407,611.81	9.4%

* 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

March 31, 2017

4/20/2017

	Type		Allocation		
			Target	Current	Diff.
Cash Held by Treasurer	Cash	\$ 175,636			
US Bank	Short-term Inv	107,510			
Total Cash		283,146	0.0%	0.1%	0.1%
Sterling Capital	Total Return	22,088,709			
Total Total Return		22,088,709	10.0%	7.7%	-2.3%
Hotchkis & Wiley	High Yield - Mutual Fund	23,517,629			
Total High Yield		23,517,629	5.0%	8.2%	3.2%
Polar	LLC	6,378,453			
American Beacon	Mutual Fund	-			
Castine Capital I	Ltd Partnership	7,346,066			
Post Limited Term High Yield	Ltd Partnership	5,882,349			
Rimrock Low Volatility	Ltd Partnership	9,467,198			
Total Absolute Return		29,074,066	8.0%	10.1%	2.1%
Total Capital Preservation		74,963,550	23.0%	26.2%	3.2%
Hotchkis & Wiley	LC Value - Mutual Fund	15,230,561			
Jackson Square (Delaware)	LC Growth - Mutual Fund	15,312,522			
MFS Heritage	LC Core	15,908,912			
Vanguard S&P 500 Index	LC Core - Mutual Fund	9,502,098			
Total US Large Cap		55,954,093	21.0%	19.5%	-1.5%
Sterling	MC Value	5,766,247			
Vanguard MC Growth	MC Growth - Mutual Fund	4,203,131			
Vanguard MC Index	MC Core - Mutual Fund	3,501,564			
Champlain	SC Core	5,224,448			
Phocas	SC Value - Mutual Fund	4,084,154			
Bridge City	SC Growth	5,523,618			
Vanguard SC Index	SC Core - Mutual Fund	941,062			
Total US Small/Mid Cap		29,244,224	11.0%	10.2%	-0.8%
Total US Equities		85,198,317	32.0%	29.7%	-2.3%
Artisan	SMID Value - Mutual Fund	21,473,104			
Euro Pacific	LC Blend - Mutual Fund	21,656,995			
Vanguard International	LC Index - Mutual Fund	-			
Total International Large Cap		43,130,099	15.0%	15.1%	0.1%
Trivalent	SC Value - Mutual Fund	11,013,887			
Total International Small/Mid		11,013,887	4.0%	3.8%	-0.2%
Berens	Ltd Partnership	10,539,641			
Total Emerging Markets		10,539,641	3.0%	3.7%	0.7%
Total International Equities		64,683,627	22.0%	22.6%	0.6%
Weatherlow Offshore	Ltd Partnership	14,885,969			
Royalty Opportunities I	Ltd Partnership	2,703,883			
Royalty Opportunities II	Ltd Partnership	1,360,043			
Troob	Ltd Partnership	285,487			
Total Long Biased		19,235,382	7.0%	6.7%	-0.3%
Legacy Partners Realty Fund III	Ltd Partnership	27,518			
Metropolitan Real Estate Partners	Ltd Partnership	356,500			
Morrison Street Fund IV	LLC	2,397,177			
Morrison Street Fund V	LLC	5,429,971			
Morrison Street Debt Opportunities	LP	2,970,912			
Principal (REITs)	REITs	13,637,338			
Total Real Estate		24,819,416	9.0%	8.7%	-0.3%
Beach Point	Ltd Partnership	8,929,955			
Total Opportunistic Credit		8,929,955	7.0%	3.1%	-3.9%
Caduceus (OrbiMed II)	Ltd Partnership	8,702,433			
Total Special Opportunities		8,702,433	0.0%	3.0%	3.0%
Total Cash and Investments		\$ 286,532,680	100.0%	100.0%	0.0%

Withdrawals \$ -

As of February 28, 2017 **\$ 285,959,718**

Estimated Rate of Return 0.2%

Abs. Return and Total Return FI	Thesis 2017.1	51,162,775	18.0%	17.9%	-0.1%
High Yield and Opp Credit	Thesis 2017.2	32,447,584	12.0%	11.3%	-0.7%
Equity and Special Situations	Thesis 2017.3	158,584,377	54.0%	55.3%	1.3%

Cash Recon - Apr 17

Date	Transactions	Sources	Uses	Balance
3/24/2017	Beginning Balance			30,168.32
3/29/2017	Sale - Vanguard Mid Cap Index	300,000.00		330,168.32
3/29/2017	Sale - Vanguard Mid Cap Growth	1,100,000.00		1,430,168.32
3/29/2017	Sale - Phocas Small Cap Value	850,000.00		2,280,168.32
3/31/2017	Distribution - OrbiMed Royalty Opps	42,381.86		2,322,550.18
3/31/2017	Monthly Pension Payments		(2,215,179.27)	107,370.91
4/3/2017	Payroll Contributions	605,752.90		713,123.81
4/3/2017	Interest	138.86		713,262.67
4/7/2017	Purchase - American Beacon Flexible Bond		(650,000.00)	63,262.67
4/17/2017	Payroll Contributions	609,716.78		672,979.45
4/19/2017	Distribution - Metro Real Estate Fund V	41,190.35		714,169.80
4/19/2017	Commission Recapture	291.02		714,460.82
4/20/2017	Purchase - American Beacon Flexible Bond		(650,000.00)	64,460.82
3/23/2017	Ending Balance	3,549,471.77	(3,515,179.27)	64,460.82
	<u>Upcoming</u>			
4/21/2017	Distribution - Morrison Street Fund IV	797,635.93		
4/28/2017	Monthly Pension Payments		(2,340,148.39)	



**SPOKANE EMPLOYEES'
RETIREMENT SYSTEM**
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Peer Group Comparisons:

- A. Prevailing City/County/State legislation
- B. Strict limit: e.g. \$0, \$50, \$100 for any food, gift, and/or entertainment
- C. Service provider disclosures
- D. “Chinese Walls”, limiting access or communication of decision makers to those who may benefit from a contract award
- E. Principle based approach: “Would you be comfortable if this ended up in the newspaper?”

SERS Board covered by SMC Chapter 01.04A Code of Ethics (abridged, [comments] and highlights added):

Section 01.04A.020 Definitions

The following words and phrases as used in this chapter, unless the context clearly indicates otherwise, shall have the following meanings:

- A. “Agency” means any **City board**, commission, bureau, committee, department, institution, division or tribunal in City government.
- G. “City officer” means **every individual elected, appointed, hired or otherwise selected to an office or position with the City, or any subdivision, agency, committee or board thereof**, whether such individual is paid or unpaid.
- L. “Employee” means any person holding a regularly compensated position of employment with the City but **does not include elected officers and persons who serve without compensation on City boards** and commissions.
- O. “Gift” means anything of economic value or tangible worth for which no consideration is given. “Gift” **does not include:**
 - 1. items from family members or friends where it is clear that the gift was not made as part of any design to gain or maintain influence in the agency of which the recipient is an officer or employee;
 - 2. items related to the outside business of the recipient that are customary and not related to the recipient’s performance of official duties;
 - 3. items exchanged among officials and employees or a social event hosted or sponsored by a City officer or City employee for coworkers;
 - 4. payments by a governmental or nongovernmental entity of reasonable expenses incurred in connection with a speech, presentation, appearance or trade mission made in an official capacity. As used in this subsection, “reasonable expenses” are limited to travel, lodging and subsistence expenses incurred the day before through the day after the event;

5. items a City officer or City employee is authorized by law to accept;
6. payment of enrollment and course fees and reasonable travel expenses attributable to attending seminars and educational programs sponsored by a bona fide governmental or nonprofit professional, educational, trade or charitable association or institution. As used in this subsection, "reasonable expenses" are limited to travel, lodging and subsistence expenses incurred the day before through the day after the event;
7. items returned by the recipient to the donor within thirty days of receipt or donated to a charitable organization within thirty days of receipt;
8. campaign contributions reported under chapter 42.17 RCW;
9. discounts available to an individual as a member of an employee group, occupation or similar broad-based group;
10. awards, prizes, scholarships or other items provided in recognition of academic or scientific achievement;
11. attendance of a City officer or employee at a hosted meal when it is provided in conjunction with a meeting directly related to the conduct of City business or where official attendance by the officer or employee as a City representative is appropriate;
12. an award publicly presented in recognition of public service; or
13. any item of nominal value which cannot reasonably be presumed to influence the vote, action or judgment of the City officer or employee, or be considered as part of a reward for action or inaction. An item of nominal value shall include incidental items associated with the professional conduct or courtesies of a City officer or employee's duty including the acceptance during the conduct of official business of such items as refreshments, note pads, pens, pins and books.

Section 01.04A.030 Prohibited Conduct

The following shall constitute a violation of this Code of Ethics:

- A. General Prohibition Against Conflicts of Interest.
- B. Personal Interests in Contracts Prohibited.
- C. Remote Interest. [*Allowed with recusal from decision making process*]
- D. Personal Influence in Contract Selection Prohibited.
- E. Representation of Private Person [*Third party*] at City Proceeding Prohibited.
- F. Certain Private Employment Prohibited.
- G. Personal Interest in Legislation Prohibited.
- H. Continuing Financial Interest. [*Very restricted, notifying firms of policy required*]
- I. Disclosure of Confidential Information
- J. Acceptance of Compensation, Gifts, Favors, Rewards or Gratuity.

City employees shall not, directly or indirectly, solicit any gift or give or receive any gift, whether it be money, services, loan, travel, entertainment, hospitality, promise, or any other form, under the following circumstances:

1. It could be reasonably inferred or expected that the gift was intended to influence them in the performance of their official duties; or
2. The gift was intended to serve as a reward for any official action on their part. Public officials and city employees may accept de minimis gifts such as, but not limited to, calendars, coffee mugs, flowers, candy, and other similar items that are given as a customary business practice and have no material significance to the recipient, with such gifts from any one source not to exceed one hundred dollars in value in any twelve-month period. City employees should report any gift to their immediate supervisor. This section shall not apply to gifts made to the city. All

such gifts shall be given to the mayor for official disposition. This prohibition shall not apply to those items which are excluded from the definition of gift in [SMC 1.04A.020](#).

- K. Fair and Equitable Treatment.
- L. False and Frivolous complaints prohibited.
- M. Aiding others prohibited.
- N. Commission of Acts of Moral Turpitude or Dishonesty Prohibited.
- O. Prohibited Conduct After Leaving City Service.
- P. Failure to Produce Public Records

[Section 01.04A.040](#) Penalties for Noncompliance

[Section 01.04A.050](#) Recall of Elected Official for Violation of Code of Ethics

[Section 01.04A.060](#) Where to Seek Initial Review

[Section 01.04A.070](#) Where to Seek Judicial Review

[Section 01.04A.080](#) Ethics Commission

[Section 01.04A.090](#) Duties and Powers

[Section 01.04A.100](#) Ex Parte Communications

[Section 01.04A.110](#) Complaint Process of the Ethics Commission

[Section 01.04A.120](#) Training

[Section 01.04A.130](#) Restrictions on Ethics Commission Members

[Section 01.04A.140](#) Vacancy and Removal

[Section 01.04A.150](#) Limitation Period

[Section 01.04A.160](#) Applicability

[Section 01.04A.170](#) Advisory Opinion

[Section 01.04A.180](#) Whistleblower Protection

[Section 01.04A.190](#) Severability