

Spokane Employees' Retirement System (SERS)
Board Meeting, 1:30 p.m. September 27, 2017
City Hall - Conference Room 5A

AGENDA

- 1) Minutes of the August 30, 2017 Meeting
 - Motion
- 2) Letter to the Mayor Regarding Sustainability
 - Motion
- 3) Directors Report
 - a. Retirements
 - Motion
 - b. Withdrawals
 - Motion
 - c. Deaths
 - Information
 - d. Expenditure Summary Report – August 2017
 - Motion
 - e. Schedule of Investments – August 2017
 - Information
 - f. Monthly Cash Reconciliation
 - Information
 - g. Consolidated Portfolio Holdings Review
 - Information
 - h. Investment Fee Analysis
 - Information
 - i. Other Business
- 4) Other Business
- 5) Next Meeting – **Wednesday, October 25, 2017 at 1:30p.m.**

Spokane Employees' Retirement System (SERS)
Board Meeting Minutes
August 30, 2017

The regular monthly meeting was called to order at 12:38 p.m. in the 5th Floor Conference Room at City Hall.

Present: Mike Coster, Candace Mumm, Brian Brill, and J.D. Morscheck

Absent: Jim Tieken, Mike Cavanaugh, and Dean Kiefer

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

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

Hyas Group, 2017 2nd Quarter Investment Performance Report

Mr. Davidson presented the Second Quarter 2017 Performance Report. He noted that it was a relatively strong quarter for the markets, as well as for most of the portfolio's managers. The Fund's watch status managers remained unchanged with no further action recommended: Jackson Square Large Cap Growth, Berens Global Value, Vanguard Mid Cap Growth, and OrbiMed Partners II. It was noted that Jackson Square and OrbiMed, have enjoyed a good start to 2017 relative to policy benchmarks. Mr. Davidson also informed the Board that the approved benchmark changes for Berens Global Value and OrbiMed Partners II were fully implemented and reflected in the report.

Hyas Group will forward the performance attribution, with selection and allocation effects, for the time periods prior to the Fund's broad allocation and Investment Policy changes. This information could not be linked when reporting under the new allocation structure.

The Board requested that Hyas Group attempt to provide a breakdown by broad sector of the overall portfolio. In particular, a look at how the portfolio might be over/under exposed to certain market categories like healthcare or financials. Mr. Davidson will work with the analytics team to provide the requested information and will forward what they are able to develop as soon as it is available.

Hyas Group provided additional qualitative detail on five of the Fund's current investment managers: OrbiMed, Berens, Morgan Stanley, Angelo Gordon, and Vanguard.

- For OrbiMed, Hyas noted a recent due diligence on-site visit regarding a major performance shortfall in 2016 for the Partners II hedge fund product. This fund remains structured as expected. The primary driver of underperformance for 2016 came from a relative value trade between bio-technology and pharmaceutical stocks that hurt both the long and short books. That trade appears to be working better in 2017. Additional monitoring will remain in place and the board will be notified of any additional issues.

- For Berens, Hyas noted for the Board that the firm has gone through a number of recent organizational changes that are viewed as positive. The current concern continues to be the fact that the assets under management for the Global Value product have shrunk considerably due to client redemptions. Berens appears to be trying to address this by merging with another investment management firm.
- For Morgan Stanley, the Board was informed that two-thirds of committed capital is expected to be called in September, with the remaining one-third called by year-end. The timing is consistent with expectations.
- For Angelo Gordon, the Board was informed that the Portfolio Manager for Corporate Credit left the firm. While Hyas Group is currently comfortable with the remaining staff on hand, they are concerned about additional employee departures. It was recommended to postpone the SERS investment indefinitely and revisit the mandate award at a later date.
- For Vanguard, the Board was briefed on a recently announced executive level change at Vanguard. Tim Buckley, the Vanguard's current Chief Investment Officer, will be taking over as the new CEO starting on January 1, 2018. This will have him replacing current Vanguard CEO, Bill McNabb. McNabb will continue to act as the Chairman of the Board once Buckley takes over as CEO. No action was required.

Minutes of the July 26, 2017 Meeting

Candace Mumm suggested a change to the motion that involved the sustainability of SERS. Discussion ensued and The Board decided to include on the September Agenda a discussion of a drafting a letter.

Candace Mumm moved and J. D. Morscheck seconded the motion to approve the minutes of the July 26, 2017 meeting as amended. 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 K. Mielke	56	09/09/2017	32.5	E

Candace Mumm moved and Brian Brill seconded the motion to approve the service retirements as presented on the August Retirement Transaction Report. The motion passed unanimously.

Withdrawals for August 2017

<i>Name</i>	<i>Years of Service</i>	<i>Termination Date</i>
Dominic C. Morin	21.8	02/28/2016
Christopher B. Van Gelder	10.8	01/06/2017
Kaitlin L. Larson	1.4	05/31/2017
Rachel E. Giachetti	8.4	07/28/2017

Candace Mumm moved and Brian Brill seconded the motion to approve the requests for withdrawal as presented on the August Retirement Transaction Report. The motion passed unanimously.

Vesting

<i>Name</i>	<i>Department</i>	<i>Years of Service</i>
Jeffrey R. Bailey	Parks & Recreation	9.0
Corbin J. Enquist	Solid Waste Management	0.76 (portable)

Deaths

<i>Name</i>	<i>Date Retired</i>	<i>Age</i>	<i>Date of Death</i>	<i>Information</i>
James M. Gaffney	12/23/1999	79	08/05/2017	No Further Benefits
Natale Polito	05/04/1993	85	08/17/2017	D Option Continues

Vesting and Death information provided to the Board for review.

Expenditure Summary Report – July 2017

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

Candace Mumm moved and Brian Brill seconded the motion to approve the July 2017 Expenditure Summary Report. The motion passed unanimously.

Schedule of Investments – July 2017

The monthly investment report was presented to the Board for review. The estimated market value of the SERS portfolio on July 31, 2017 was \$298 million with an estimated rate of return of 1.0% 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.

There being no other business, the meeting adjourned at 2:21 p.m.

Phillip Tencick, Retirement Director

SERS Retirement Transaction Report

September 2017

Retirements

	Name	Age	Retirement Date	Years of Service	Department	Option
1	Brian K. Kreuch	54	09/02/2017	12.7	Water Advanced	C-10
2	Gregory N. Lorenzi	57	10/01/2017	8.6	Wastewater Treatment	ST
3	James E. Moe	61	10/05/2017	34.0	Street	D
4	Jody L. Treffry	62	11/02/2017	11.8	Probation Services	ST
5	Lynn M. Cunningham	63	11/04/2017	25.4	Street	ST
	Retirements YTD	47				
	2016 Total Retirements	69				

Withdrawals

	Name	Years of Service	Department	Termination Date
1	Molly Rose B. Fehringer	2.9	Legal	03/03/2017
2	Lauren E. Pierson	1.3	Police	06/16/2017
3	Jason H. Ellsworth	2.7	Solid Waste Disposal	08/08/2017
4	Sandra D. Willard	0.5	IT	08/09/2017

Deaths

	Name	Date Retired	Age	Date of Death	Information
1	Jack G. Trelawney	05/06/2000	83	08/24/2017	No Further Benefits
2	Jack N. Johnston	02/03/2002	81	08/31/2017	No Further Benefits
3	Otto L. Deneke	09/12/1981	98	09/15/2017	No Further Benefits

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

	2016 ACTUAL	2017 BUDGET	AUGUST ACTUAL EXPENDITURES	2017 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
OPERATING EXPENDITURES						
Departmental Salaries	261,984.86	279,341.00	20,469.82	163,548.50	115,792.50	58.5%
Departmental Benefits	76,531.55	80,482.00	6,235.35	50,089.32	30,392.68	62.2%
Reserve for Budget Adjustment	-	10,000.00	-	-	10,000.00	0.0%
Administrative Income	(19,375.31)	(10,000.00)	-	(9,754.89)	(245.11)	
Postage/Supplies/Other	11,432.31	16,500.00	220.78	2,833.63	13,666.37	17.2%
State Audit Charges	11,172.03	12,000.00	1,158.52	6,778.71	5,221.29	56.5%
Contractual Services	80,222.66	173,475.00	18,699.15	121,470.98	52,004.02	70.0%
Travel	7,972.23	15,000.00	286.40	4,436.25	10,563.75	29.6%
Registration/Schooling	805.00	30,285.00	150.00	15,835.00	14,450.00	52.3%
Other Dues/Subscriptions/Membership	1,993.20	2,500.00	371.00	731.00	1,769.00	29.2%
Other Miscellaneous Charges	1,278.26	1,826.00	55.00	484.18	1,341.82	26.5%
Amortization	17,649.00	-	-	-	-	
TOTAL OPERATING EXPENDITURES	451,665.79	611,409.00	47,646.02	356,452.68	254,956.32	58.3%
INTERFUND EXPENDITURES						
Interfund - Centralized Accounting	2,303.96	2,347.00	-	1,760.19	586.81	75.0%
Interfund - IT Phones	1,505.77	1,451.00	128.62	887.36	563.64	61.2%
Interfund - Risk Management	991.00	760.00	190.00	570.00	190.00	75.0%
Interfund - Worker's Compensation	198.00	104.00	26.00	78.00	26.00	75.0%
Interfund - Reprographics	4,930.49	4,500.00	194.61	4,396.55	103.45	97.7%
Interfund - IT	12,980.37	14,078.00	1,173.17	8,212.19	5,865.81	58.3%
Interfund - IT Replacement	1,926.96	2,772.00	231.00	1,617.00	1,155.00	58.3%
Interfund - My Spokane	751.00	-	-	-	-	
TOTAL INTERFUND EXPENDITURES	25,587.55	26,012.00	1,943.40	17,521.29	8,490.71	67.4%
TOTAL ADMINISTRATIVE EXPENDITURES	477,253.34	637,421.00	49,589.42	373,973.97	263,447.03	58.7%

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

	2016 ACTUAL	2017 BUDGET	AUGUST ACTUAL EXPENDITURES	2017 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
PENSIONS						
Pensions-Annuity Benefit Payments	23,765,712.64	26,000,000.00	2,092,252.38	16,457,527.86	9,542,472.14	63.3%
Pensions-Disability Payments	125,328.48	160,000.00	10,444.04	83,552.32	76,447.68	52.2%
Pensions-Survivor Annuity Benefits Payments	1,846,473.52	2,000,000.00	158,533.26	1,284,384.78	715,615.22	64.2%
TOTAL PENSIONS	<u>25,737,514.64</u>	<u>28,160,000.00</u>	<u>2,261,229.68</u>	<u>17,825,464.96</u>	<u>10,334,535.04</u>	63.3%
Refunds	729,741.16	1,000,000.00	201,042.93	374,024.53	625,975.47	37.4%
TOTAL EXPENSES	<u><u>26,944,509.14</u></u>	<u><u>29,797,421.00</u></u>	<u><u>2,511,862.03</u></u>	<u><u>18,573,463.46</u></u>	<u><u>11,223,957.54</u></u>	62.3%
INVESTMENT EXPENSE*						
Advisory Technical Service	380,964.60	450,000.00	58,823.02	260,602.94	189,397.06	57.9%

* 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, 2017

9/20/2017

	Type		Allocation		
			Target	Current	Diff.
Cash Held by Treasurer	Cash	\$ 86,045			
US Bank	Short-term Inv	441,305			
	Total Cash	527,350	0.0%	0.2%	0.2%
Sterling Capital	Total Return	22,718,403			
	Total Total Return	22,718,403	10.0%	7.6%	-2.4%
Hotchkis & Wiley	High Yield - Mutual Fund	21,958,258			
	Total High Yield	21,958,258	5.0%	7.4%	2.4%
Polar	LLC	6,427,338			
American Beacon	Mutual Fund	2,491,766			
Castine Capital I	Ltd Partnership	7,466,493			
Post Limited Term High Yield	Ltd Partnership	5,985,112			
Rimrock Low Volatility	Ltd Partnership	9,623,593			
	Total Absolute Return	31,994,302	8.0%	10.7%	2.7%
Total Capital Preservation		77,198,313	23.0%	25.9%	2.9%
Hotchkis & Wiley	LC Value - Mutual Fund	15,582,244			
Jackson Square (Delaware)	LC Growth - Mutual Fund	17,355,813			
MFS Heritage	LC Core	16,634,698			
Vanguard S&P 500 Index	LC Core - Mutual Fund	10,024,964			
	Total US Large Cap	59,597,719	21.0%	20.0%	-1.0%
Sterling	MC Value	5,613,982			
Vanguard MC Growth	MC Growth - Mutual Fund	4,461,284			
Vanguard MC Index	MC Core - Mutual Fund	3,640,028			
Champlain	SC Core	5,295,579			
Phocas	SC Value - Mutual Fund	4,022,113			
Bridge City	SC Growth	5,568,159			
Vanguard SC Index	SC Core - Mutual Fund	960,936			
	Total US Small/Mid Cap	29,562,081	11.0%	9.9%	-1.1%
Total US Equities		89,159,800	32.0%	29.9%	-2.1%
Artisan	SMID Value - Mutual Fund	21,128,234			
Euro Pacific	LC Blend - Mutual Fund	21,263,176			
Vanguard International	LC Index - Mutual Fund	-			
	Total International Large Cap	42,391,410	15.0%	14.2%	-0.8%
Trivalent	SC Value - Mutual Fund	10,985,158			
	Total International Small/Mid	10,985,158	4.0%	3.7%	-0.3%
Berens	Ltd Partnership	11,734,215			
	Total Emerging Markets	11,734,215	3.0%	3.9%	0.9%
Total International Equities		65,110,783	22.0%	21.8%	-0.2%
Weatherlow Offshore	Ltd Partnership	14,930,538			
Royalty Opportunities I	Ltd Partnership	2,719,344			
Royalty Opportunities II	Ltd Partnership	2,142,811			
Troob	Ltd Partnership	-			
	Total Long Biased	19,792,693	7.0%	6.6%	-0.4%
Legacy Partners Realty Fund III	Ltd Partnership	27,656			
Metropolitan Real Estate Partners	Ltd Partnership	271,468			
Morrison Street Fund IV	LLC	1,276,816			
Morrison Street Fund V	LLC	5,766,542			
Morrison Street Debt Opportunties	LP	3,688,391			
Principal (REITs)	REITs	16,188,395			
	Total Real Estate	27,219,268	9.0%	9.1%	0.1%
Beach Point	Ltd Partnership	10,041,321			
	Total Opportunistic Credit	10,041,321	7.0%	3.4%	-3.6%
Caduceus (OrbiMed II)	Ltd Partnership	9,966,963			
	Total Special Opportunities	9,966,963	0.0%	3.3%	3.3%
Total Cash and Investments		\$ 298,489,141	100.0%	100.0%	0.0%
		Withdrawals \$ (100,000)			
		As of July 31, 2017 \$ 298,009,998			
		Estimated Rate of Return 0.2%			
Abs. Return and Total Return FI	Thesis 2017.1	54,712,705	18.0%	18.3%	0.3%
High Yield and Opp Credit	Thesis 2017.2	31,999,579	12.0%	10.7%	-1.3%
Equity and Special Situations	Thesis 2017.3	164,237,546	54.0%	55.0%	1.0%

Cash Recon - Sep 17

Date	Transactions	Sources	Uses	Balance
8/25/2017	Beginning Balance			653,664.19
8/31/2017	Sale - Artisan and Euro Pacific	2,250,000.00		2,903,664.19
8/31/2017	Pension Payments		(2,462,684.64)	440,979.55
9/1/2017	Capital Call - Royalty Opps II		(400,000.00)	40,979.55
9/1/2017	Interest	325.09		41,304.64
9/5/2017	Payroll Contributions	608,890.58		650,195.22
9/12/2017	Pension Correction - Return and Reissue	266.04		650,461.26
9/15/2017	Distribution - Royalty Opps II	88,405.39		738,866.65
9/18/2017	Payroll Contributions	619,815.40		1,358,682.05
9/19/2017	Commission Recapture	35.57		1,358,717.62
9/21/2017	Ending Balance	3,567,738.07	(2,862,684.64)	1,358,717.62
	<u>Upcoming</u>			
9/27/2017	Sale - TBD	1,400,000.00		
9/27/2017	Sale - Prinicpal REITs	4,250,000.00		
9/28/2017	Capital Call - Morgan Stanley PRIME		(4,666,667.00)	
9/29/2017	Pension Payments		(2,303,463.82)	