

**Spokane Employees' Retirement System (SERS)**  
**Board Meeting, 1:30 p.m. January 31, 2018**  
**City Hall - Conference Room 5A**

**AGENDA**

- 1) Election of Chairperson
  - Motion
- 2) Minutes of the December 6, 2017 Meeting
  - Motion
- 3) Director's Report
  - a. Retirements
    - Motion
  - b. Withdrawals
    - Motion
  - c. Deaths
    - Information
  - d. Expenditure Summary Report – November 2017
    - Motion
  - e. Schedule of Investments – December 2017
    - Information
  - f. Monthly Cash Reconciliation
    - Information
  - g. Other Business – Information
    - (1) Rule of 90 Implementation Update
    - (2) Annual Board Agenda
    - (3) Investment Advisory Committee Update
- 4) Board Rules
  - Motion
- 5) Other Business
- 6) Next Meeting – **Wednesday February 28, 2018 at 12:00 p.m.**

**Spokane Employees' Retirement System (SERS)**  
**Board Meeting Minutes**  
**December 6, 2017**

The regular monthly meeting was called to order at 12:35 p.m. in the 5<sup>th</sup> Floor Conference Room at City Hall.

**Present:** Mike Cavanaugh, Jim Tieken, Candace Mumm, Dean Kiefer, and J.D. Morscheck

**Absent:** Mike Coster and Brian Brill

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

**Guests:** Jayson Davidson, Joe Cavanaugh, Joan Hamilton, Natalie Hildebrand, Dave Hanshaw, Bob Olson, Richard Czernik, and John Bjork.

J.D. Morscheck arrived at 12:40 p.m.

**Hyas Group, 2017 3<sup>rd</sup> Quarter Investment Performance Report**

Mr. Davidson reviewed the Third Quarter 2017 performance report with the Board. Mr. Davidson shared information on the performance of the overall portfolio and individual fund holdings. SERS enjoyed another strong quarter relative to the policy benchmark and peers.

The Fund's watch status managers: Jackson Square Large Cap Growth, Berens Global Value, Vanguard Mid Cap Growth, and the OrbiMed Partners II will remain on watch. Mr. Davidson noted two of the managers, Jackson Square and OrbiMed, are turning in strong relative numbers in 2017. The Vanguard Mid Cap Growth Fund and Berens Global Value Fund continue to struggle against their respective benchmarks. Additionally, Hyas has been closely monitoring the assets under management level at Berens and reported that Berens has had approximately \$80 million in redemptions during the third quarter. This pace of redemptions relative to the current assets under management is a growing concern and Hyas will continue to monitor closely.

Hyas Group's reporting team will look into the feasibility of showing risk-adjusted performance metrics for use in the evaluation of investment manager performance versus policy benchmarks. Mr. Davidson will bring samples for review.

Mr. Davidson informed the board that the final payout from Legacy Partners investment has been received. Additionally, Morgan Stanley has drawn two-thirds of the \$7 million committed capital, with the final third to be called at the end of the fourth quarter.

Jim Tieken moved and Dean Kiefer seconded the motion to place MFS Large Cap Strategy on watch for performance issues. The motion passed unanimously.

Candace Mumm moved and Dean Kiefer seconded the motion to place the firm OrbiMed on watch for qualitative, non-performance related reasons. The motion passed unanimously.

**Minutes of the October 25, 2017 Meeting**

Candace Mumm moved and J.D. Morscheck seconded the motion to approve the minutes of the October 25, 2017 meeting as presented. The motion passed unanimously.

**Outside Counsel Contract Renewals**

Jim Tieken moved and Dean Kiefer seconded the motion for a one-year extension to the contract with Ogletree, Deakins, Nash, Smoak & Stewart, P.C. as a sole source provider for outside counsel. The motion passed unanimously.

Jim Tieken moved and Dean Kiefer seconded the motion for a one-year extension to the contract with K&L Gates, LLP, with a friendly amendment to conduct an RFP during the year. 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>
Gregory N. Lorenzi	57	11/01/2017	8.6	ST
Lee W. Joslyn	53	11/07/2017	26.7	ST
Shari L. Austin	56	11/18/2017	23.1	ST
Lisa M. Dillmann	58	12/02/2017	26.2	A
Daniel R. Keison	68	12/30/2017	28.8	A
Andrew J. McElvaney	62	01/07/2018	20.1	E
Daniel L. Hagerman	64	01/09/2018	14.3	E
Lu A. Glasser	62	01/20/2018	30.0	E
Gita S. George-Hatcher	60	04/07/2018	27.0	B

Jim Tieken moved and Candace Mumm seconded the motion to approve the service retirements as presented on the November Retirement Transaction Report. The motion passed unanimously.

**Withdrawals for November 2017**

<i>Name</i>	<i>Years of Service</i>	<i>Termination Date</i>
Cole C. Marchant	1.8	08/17/2017
Trynitee M. Peat	0.1	08/18/2017

Jim Tieken moved and Candace Mumm seconded the motion to approve the requests for withdrawal as presented on the November Retirement Transaction Report. The motion passed unanimously.

### Vesting

<i>Name</i>	<i>Department</i>	<i>Years of Service</i>
Marvin D. Tucker	Police	18.2
Janean V. Phillips	Legal	10.6

### Deaths

<i>Name</i>	<i>Date Retired</i>	<i>Age</i>	<i>Date of Death</i>	<i>Information</i>
Mary L. Franklin	04/22/2010	59	10/21/2017	E Option Continues
Michael H. McGhee	03/30/1989	80	10/30/2017	No Further Benefits
Edith A. Sramek	07/02/2002	70	10/30/2017	No Further Benefits
Walter R. Cummings	11/08/1980	99	11/03/2017	E Option Continues
Rodney R. Bishop	08/19/2003	65	11/20/2017	E Option Continues

Vesting and Death information provided to the Board for review.

### Expenditure Summary Report – October 2017

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

Dean Kiefer moved and Candace Mumm seconded the motion to approve the November 2017 Expenditure Summary Report. The motion passed unanimously.

### Schedule of Investments – October 2017

The monthly investment report was presented to the Board for review. The estimated market value of the SERS portfolio on October 31, 2017 was \$304 million with an estimated rate of return of 1.4% 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.

### Rule of 90 Implementation

Candace Mumm moved and J.D. Morscheck seconded the motion to present to City Council the changes to the Spokane Municipal Code and Resolutions to implement the new Plan tier. The code changes include adding items negotiated in the latest labor contracts, codifying that the retirement option election is irrevocable, and allowing the SERS Board to accept, on disability retirement applications, the Social Security Administration's determination if the member has been approved for a disability. The Resolutions would include the language increase the contribution rate and updating the Mortality Tables to the RP-2000 table. The motion passed unanimously.

Candace Mumm left at 2:00 p.m.

Mr. Tencick discussed his due diligence trip to Portland, Oregon, to meet with BridgeCity and US Bank.

There being no other business, the meeting adjourned at 2:04 p.m.

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**Phillip Tencick, Retirement Director**

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## SERS Retirement Transaction Report

### January 2018

#### Retirements

	<b>Name</b>	<b>Age</b>	<b>Retirement Date</b>	<b>Years of Service</b>	<b>Department</b>	<b>Option</b>
1	Mira Duong	50	08/10/2017	15.5	Municipal Court Advanced	B
2	Terry M. Headley	67	12/03/2017	41.2	Wastewater Treatment	E
3	Ronda A. Stapleton	53	01/01/2018	9.9	Solid Waste Collections	ST
4	Robert M. West	64	01/03/2018	19.3	Probation Services	E
5	Eric M. Townsend	50	01/06/2018	17.4	Library	ST
6	Virgil L. Stratton	63	01/08/2018	28.0	Street	E
7	Carla J. Pearson	63	01/13/2018	9.8	My Spokane Advanced	ST
8	Raymond E. Rouse	66	01/13/2018	8.9	Wastewater Treatment	ST
9	Sharon J. Lukich	66	02/02/2018	16.8	Public Works & Utilities	D
10	Tia L. Tauscher	56	02/03/2018	27.5	Solid Waste Disposal	D
11	Joyce L. Brede Stiles	66	03/31/2018	23.8	IT	ST
12	Janice A. Ahmann	60	04/03/2018	25.6	Library	E
13	William P. Craver	63	04/13/2018	10.4	Sewer Maintenance	D
	Retirements YTD	8				
	2017 Total Retirements	62				

#### Withdrawals

	<b>Name</b>	<b>Years of Service</b>	<b>Department</b>	<b>Termination Date</b>
1	Angel D. Odle	0.3	Police	11/27/2017
2	Michael P. Werner	2.0	Asset Management Fund Operations	02/24/2015

#### Deaths

	<b>Name</b>	<b>Date Retired</b>	<b>Age</b>	<b>Date of Death</b>	<b>Information</b>
1	Keith M. Thackray	09/26/1985	91	12/11/2017	No Further Benefits
2	David F. Scarpelli	05/14/2001	66	12/18/2017	No Further Benefits
3	John H. Owen	07/12/2007	68	12/20/2017	E Option Continues
4	Richard A. Davis	06/21/2002	71	12/19/2017	No Further Benefits
5	Andrea E. Nierstheimer	07/23/2016	64	12/26/2017	No Further Benefits
6	Michael R. Jobe	10/02/2015	56	01/13/2018	No Further Benefits

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100  
 2017 EXPENDITURE SUMMARY REPORT  
 NOVEMBER 30, 2017

	2016 ACTUAL	2017 BUDGET	NOVEMBER ACTUAL EXPENDITURES	2017 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
<b>OPERATING EXPENDITURES</b>						
Departmental Salaries	261,984.86	279,341.00	20,424.81	234,870.32	44,470.68	84.1%
Departmental Benefits	76,531.55	80,482.00	6,230.83	70,378.67	10,103.33	87.4%
Reserve for Budget Adjustment	-	10,000.00	-	-	10,000.00	0.0%
Administrative Income	(19,375.31)	(10,000.00)	-	(14,853.04)	4,853.04	
Postage/Supplies/Other	11,432.31	16,500.00	56.94	3,145.49	13,354.51	19.1%
State Audit Charges	11,172.03	12,000.00	1,112.36	9,621.75	2,378.25	80.2%
Contractual Services	80,222.66	173,475.00	1,105.00	125,726.41	47,748.59	72.5%
Travel	7,972.23	15,000.00	181.98	8,883.18	6,116.82	59.2%
Registration/Schooling	805.00	30,285.00	145.00	15,980.00	14,305.00	52.8%
Other Dues/Subscriptions/Membership	1,993.20	2,500.00	1,155.00	1,886.00	614.00	75.4%
Other Miscellaneous Charges	1,278.26	1,826.00	59.48	653.66	1,172.34	35.8%
Amortization	17,649.00	-	-	-	-	
<b>TOTAL OPERATING EXPENDITURES</b>	<b>451,665.79</b>	<b>611,409.00</b>	<b>30,471.40</b>	<b>456,292.44</b>	<b>155,116.56</b>	<b>74.6%</b>
<b>INTERFUND EXPENDITURES</b>						
Interfund - Centralized Accounting	2,303.96	2,347.00	-	2,346.92	0.08	100.0%
Interfund - IT Phones	1,505.77	1,451.00	124.51	1,262.20	188.80	87.0%
Interfund - Risk Management	991.00	760.00	190.00	760.00	-	100.0%
Interfund - Worker's Compensation	198.00	104.00	26.00	104.00	-	100.0%
Interfund - Reprographics	4,930.49	4,500.00	930.01	6,866.50	(2,366.50)	152.6%
Interfund - IT	12,980.37	14,078.00	1,173.17	11,731.70	2,346.30	83.3%
Interfund - IT Replacement	1,926.96	2,772.00	231.00	2,310.00	462.00	83.3%
Interfund - My Spokane	751.00	-	-	296.59	(296.59)	#DIV/0!
<b>TOTAL INTERFUND EXPENDITURES</b>	<b>25,587.55</b>	<b>26,012.00</b>	<b>2,674.69</b>	<b>25,677.91</b>	<b>334.09</b>	<b>98.7%</b>
<b>TOTAL ADMINISTRATIVE EXPENDITURES</b>	<b>477,253.34</b>	<b>637,421.00</b>	<b>33,146.09</b>	<b>481,970.35</b>	<b>155,450.65</b>	<b>75.6%</b>

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100  
 2017 EXPENDITURE SUMMARY REPORT  
 NOVEMBER 30, 2017

	2016 ACTUAL	2017 BUDGET	NOVEMBER ACTUAL EXPENDITURES	2017 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
<b>PENSIONS</b>						
Pensions-Annuity Benefit Payments	23,765,712.64	26,000,000.00	2,098,059.43	22,739,879.24	3,260,120.76	87.5%
Pensions-Disability Payments	125,328.48	160,000.00	10,444.04	114,884.44	45,115.56	71.8%
Pensions-Survivor Annuity Benefits Payments	1,846,473.52	2,000,000.00	157,584.89	1,756,150.52	243,849.48	87.8%
<b>TOTAL PENSIONS</b>	<u>25,737,514.64</u>	<u>28,160,000.00</u>	<u>2,266,088.36</u>	<u>24,610,914.20</u>	<u>3,549,085.80</u>	87.4%
Refunds	729,741.16	1,000,000.00	30,887.69	540,098.93	459,901.07	54.0%
<b>TOTAL EXPENSES</b>	<u><u>26,944,509.14</u></u>	<u><u>29,797,421.00</u></u>	<u><u>2,330,122.14</u></u>	<u><u>25,632,983.48</u></u>	<u><u>4,164,437.52</u></u>	86.0%
<b>INVESTMENT EXPENSE*</b>						
Advisory Technical Service	380,964.60	450,000.00	59,246.11	376,943.23	73,056.77	83.8%

\* 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  
December 31, 2017

1/25/2018

				Allocation		
				Target	Current	Diff.
Cash Held by Treasurer	Cash	\$	32,606			
US Bank	Short-term Inv		229,165			
<b>Total Cash</b>			<b>261,771</b>	<b>0.0%</b>	<b>0.1%</b>	<b>0.1%</b>
Sterling Capital	Total Return		23,798,158			
<b>Total Total Return</b>			<b>23,798,158</b>	<b>10.0%</b>	<b>7.7%</b>	<b>-2.3%</b>
Hotchkis & Wiley	High Yield - Mutual Fund		23,296,834			
<b>Total High Yield</b>			<b>23,296,834</b>	<b>5.0%</b>	<b>7.6%</b>	<b>2.6%</b>
Polar	LLC		6,634,594			
American Beacon	Mutual Fund		1,389,936			
Castine Capital I	Ltd Partnership		7,752,590			
Post Limited Term High Yield	Ltd Partnership		6,003,233			
Rimrock Low Volatility	Ltd Partnership		9,671,706			
<b>Total Absolute Return</b>			<b>31,452,059</b>	<b>8.0%</b>	<b>10.2%</b>	<b>2.2%</b>
<b>Total Capital Preservation</b>			<b>78,808,822</b>	<b>23.0%</b>	<b>25.5%</b>	<b>2.5%</b>
Hotchkis & Wiley	LC Value - Mutual Fund		16,510,608			
Jackson Square (Delaware)	LC Growth - Mutual Fund		16,048,057			
MFS Heritage	LC Core		18,144,669			
Vanguard S&P 500 Index	LC Core - Mutual Fund		10,612,535			
<b>Total US Large Cap</b>			<b>61,315,869</b>	<b>21.0%</b>	<b>19.9%</b>	<b>-1.1%</b>
Sterling	MC Value		6,152,998			
Vanguard MC Growth	MC Growth - Mutual Fund		4,832,653			
Vanguard MC Index	MC Core - Mutual Fund		3,932,311			
Champlain	SC Core		5,661,018			
Phocas	SC Value - Mutual Fund		4,423,145			
Bridge City	SC Growth		6,204,281			
Vanguard SC Index	SC Core - Mutual Fund		1,054,555			
<b>Total US Small/Mid Cap</b>			<b>32,260,961</b>	<b>11.0%</b>	<b>10.5%</b>	<b>-0.5%</b>
<b>Total US Equities</b>			<b>93,576,830</b>	<b>32.0%</b>	<b>30.3%</b>	<b>-1.7%</b>
Artisan	SMID Value - Mutual Fund		21,644,352			
Euro Pacific	LC Blend - Mutual Fund		21,608,849			
Vanguard International	LC Index - Mutual Fund		-			
<b>Total International Large Cap</b>			<b>43,253,201</b>	<b>15.0%</b>	<b>14.0%</b>	<b>-1.0%</b>
Trivalent	SC Value - Mutual Fund		12,104,720			
<b>Total International Small/Mid</b>			<b>12,104,720</b>	<b>4.0%</b>	<b>3.9%</b>	<b>-0.1%</b>
Berens	Ltd Partnership		12,161,685			
<b>Total Emerging Markets</b>			<b>12,161,685</b>	<b>3.0%</b>	<b>3.9%</b>	<b>0.9%</b>
<b>Total International Equities</b>			<b>67,519,606</b>	<b>22.0%</b>	<b>21.9%</b>	<b>-0.1%</b>
Weatherlow Offshore	Ltd Partnership		15,433,342			
Royalty Opportunities I	Ltd Partnership		2,714,472			
Royalty Opportunities II	Ltd Partnership		2,528,494			
Troob	Ltd Partnership		-			
<b>Total Long Biased</b>			<b>20,676,308</b>	<b>7.0%</b>	<b>6.7%</b>	<b>-0.3%</b>
Legacy Partners Realty Fund III	Ltd Partnership		-			
Metropolitan Real Estate Partners	Ltd Partnership		248,047			
Morrison Street Fund IV	LLC		812,244			
Morrison Street Fund V	LLC		5,261,746			
Morrison Street Debt Opportunties	LP		4,111,626			
Principal (REITs)	REITs		10,135,757			
Morgan Stanley Prime	LLC		7,051,160			
<b>Total Real Estate</b>			<b>27,620,580</b>	<b>9.0%</b>	<b>9.0%</b>	<b>0.0%</b>
Beach Point	Ltd Partnership		10,294,191			
<b>Total Opportunistic Credit</b>			<b>10,294,191</b>	<b>7.0%</b>	<b>3.3%</b>	<b>-3.7%</b>
Caduceus (OrbiMed II)	Ltd Partnership		10,041,663			
<b>Total Special Opportunities</b>			<b>10,041,663</b>	<b>0.0%</b>	<b>3.3%</b>	<b>3.3%</b>
<b>Total Cash and Investments</b>			<b>\$ 308,538,000</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>

Monthly Pension \$ (2,295,409)  
As of November 30, 2017 **\$ 306,258,864**  
Estimated Rate of Return 1.5%

<b>Abs. Return and Total Return FI</b>	Thesis 2017.1	<b>55,250,217</b>	<b>18.0%</b>	<b>17.9%</b>	<b>-0.1%</b>
<b>High Yield and Opp Credit</b>	Thesis 2017.2	<b>33,591,025</b>	<b>12.0%</b>	<b>10.9%</b>	<b>-1.1%</b>
<b>Equity and Special Situations</b>	Thesis 2017.3	<b>171,138,099</b>	<b>54.0%</b>	<b>55.5%</b>	<b>1.5%</b>

## Cash Recon - Dec 17

Date	Transactions	Sources	Uses	Balance
<b>12/1/2017</b>	<b>Beginning Balance</b>			<b>80,436.14</b>
12/1/2017	Interest	369.88		<b>80,806.02</b>
12/8/2017	Distribution - OrbiMed Royalty Opps II	267,857.14		<b>348,663.16</b>
12/11/2017	Payroll Contributions	630,216.40		<b>978,879.56</b>
12/13/2017	Distribution - OrbiMed Royalty Opps II	8,310.17		<b>987,189.73</b>
12/15/2017	Purchase - Hotchkis and Wiley High Yield		(900,000.00)	<b>87,189.73</b>
12/18/2017	Commission Recapture	31.68		<b>87,221.41</b>
12/20/2017	Returned Pension Overpayment	131.71		<b>87,353.12</b>
12/21/2017	Distribution - Metro V	14,472.28		<b>101,825.40</b>
12/22/2017	Distribution - Morrison Street V	90,448.02		<b>192,273.42</b>
12/26/2017	Payroll Contributions	616,741.16		<b>809,014.58</b>
12/28/2017	Sale - Principal REIT	2,300,000.00		<b>3,109,014.58</b>
12/28/2017	Purchase - Morgan Stanley PRIME RE Fund		(2,333,333.00)	<b>775,681.58</b>
12/28/2017	Distribution - Morgan Stanley PRIME RE Fund	45,999.29		<b>821,680.87</b>
12/29/2017	Sale - Principal REIT	300,000.00		<b>1,121,680.87</b>
12/29/2017	Sale - Jackson Square	600,000.00		<b>1,721,680.87</b>
12/29/2017	Sale - Vanguard S&P 500	800,000.00		<b>2,521,680.87</b>
12/29/2017	Pension Payments	(2,292,811.53)		<b>228,869.34</b>
<b>12/31/2017</b>	<b>Ending Balance</b>	<b>3,381,766.20</b>	<b>(3,233,333.00)</b>	<b>228,869.34</b>

## Cash Recon - Jan 18

Date	Transactions	Sources	Uses	Balance
<b>1/1/2018</b>	<b>Beginning Balance</b>			<b>228,869.34</b>
1/2/2018	Interest	295.42		<b>229,164.76</b>
1/8/2018	Payroll Contributions	703,543.32		<b>932,708.08</b>
1/16/2018	Purchase - American Beacon		(850,000.00)	<b>82,708.08</b>
1/16/2018	Wire to City Account (Operating Expenses)		(50,000.00)	<b>32,708.08</b>
1/19/2018	Distribution - Morrison Street IV	9,456.26		<b>42,164.34</b>
1/22/2018	Commission Recapture	24.76		<b>42,189.10</b>
1/22/2018	Payroll Contributions	701,491.76		<b>743,680.86</b>
1/23/2018	Reissue Corrected Pension Payment	1,050.36		<b>744,731.22</b>
1/23/2018	Return Pension Payment	(880.95)		<b>743,850.27</b>
<b>1/23/2018</b>	<b>Ending Balance</b>	<b>1,414,980.93</b>	<b>(900,000.00)</b>	<b>743,850.27</b>
	<u>Upcoming</u>			
1/29/2018	Morrison Street MSDO Fund		(431,929.70)	
1/31/2018	January Pension Payments		(2,311,852.07)	