

Spokane Employees' Retirement System (SERS)
Board Meeting, 12:00 p.m. March 27, 2019
City Hall – Council Briefing Center

AGENDA

1. Minutes of the February 27, 2019 Meeting
 - Motion
2. Director's Report
 - a. Retirements
 - Motion
 - b. Withdrawals
 - Motion
 - c. Vesting
 - Information
 - d. Deaths
 - Information
 - e. Expenditure Summary Report – February 2019
 - Motion
 - f. Schedule of Investments – February 2019
 - Information
 - g. Cash Reconciliation – February 2019
 - Information
 - h. Other Business
 - SB 5240 Update
 - Exempt Confidential Analysis
3. Long-Term Funding Strategy
 - Discussion
4. Doodle Survey Results
 - Motion
5. Other Business
6. Next Meeting - **Wednesday, April 24, 2019 at 12:00 p.m.**

Spokane Employees' Retirement System (SERS)
Board Meeting Minutes
February 27, 2019

The regular monthly meeting was called to order at 12:06 p.m. in the Council Briefing Center at City Hall.

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

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

Guests: Jayson Davidson, Joe Cavanaugh, Adam Miles, Bob Olsen, Richard Czernik, and John Bjork.

Dean Kiefer arrived at 12:15 p.m.

Hyas Group, 2018 4th Quarter Investment Performance Report

Mr. Davidson presented the Fourth Quarter 2018 Performance Report to the Board. The Portfolio was hit sharply by the sell-off and performed poorly on a relative basis across the majority of active management strategies. There were few positive investment stories for the quarter were few. The performance shortfalls resulted in negative longer-term performance versus policy and put us behind most peers. Mr. Davidson did communicate that most of the portfolio managers have rebounded in the first quarter of 2019 and he is optimistic about posting numbers that will help the longer track record.

The following funds remained on watch status: MFS Blended Research Core, Jackson Square Large Cap Growth, Vanguard Mid Cap Growth, and OrbiMed Partners. Hyas Group recommended adding the Hotchkis & Wiley Diversified Value Fund and the Frontier Phocas Small Cap Value Fund to the watch list for performance in violation of policy parameters. Hyas Group also recommended adding a qualitative watch status for the Vanguard Mid Cap Growth Fund. Mr. Davidson presented a Hyas Group memo documenting recent changes to the sub-advisor structure and the wholesale turnover of managers since the original funding.

Mike Cavanaugh moved and Jim Tieken seconded the motion to place on watch status due to performance reasons Hotchkis & Wiley Diversified Value and Frontier Phocas Small Cap Value, and to add watch status for qualitative reasons to the Vanguard Mid Cap Growth Fund. The motion passed unanimously.

Mr. Davidson informed the Board that TCW, the parent company for MetWest, has announced the retirement of the Director of Credit Research, Jamie Farnham. While this is certainly a senior level departure, Mr. Farnham is not one of the four named portfolio

managers for the MetWest Total Return Fund and does not have any direct investment responsibilities for the product. While this departure is notable, Hyas Group did not recommend any action.

Investment Policy Statement Review

The Board engaged in the annual review of the Investment Policy Statement. Hyas and Staff recommended adjustments to the benchmark structure for the real estate asset class. The changes would be reflected on next quarter's performance report.

Candace Mumm moved and Jim Tieken seconded the motion to approve the Investment Policy Statement with the changes as recommended. The motion passed unanimously.

Large Cap Blend Manager Review

Mr. Davidson presented an analysis comparing the MFS Blended Research Core Fund to its large cap core index alternative the Fidelity S&P 500 Index Fund. The MFS Blended Research Core Fund has not been able to outperform the passive alternative. Transitioning to the index fund would reduce fees and essentially eliminate active risk for this mandate.

J. D. Morscheck moved and Mike Cavanaugh seconded the motion to replace MFS Blended Research Core Equity with Fidelity 500 Index. The motion passed unanimously.

The MFS Fund will remain on watch (as per earlier discussion until it is removed). Additionally, Mr. Davidson and the Board engaged in a broader discussion regarding active vs. passive investing as it pertains to the US large cap equity asset class. Hyas Group will be prepared to discuss the prospects of moving from the current active Large Cap Growth and Value managers to a passive alternative. Hyas Group will present analysis in that regard at the next quarterly investment meeting.

Other Business

Mr. Davidson informed the Board that the transition from Vanguard Indexes to Fidelity indexes took place in January as approved. The First Quarter 2019 report will reflect this change.

For future reports, Hyas Group will look to provide information on the asset class fee ranking for each of the SERS fund options.

Mr. Davidson asked the Board to participate in the Hyas Group client survey. Discussion ensued and Hyas will work with Staff to verify the email addresses for the Board members.

Minutes of the January 30, 2019 Meeting

Mike Cavanaugh moved and Jim Tieken seconded the motion to approve the minutes of the January 30, 2019 meeting as presented.

Director's Report
Service Retirements

<i>Name</i>	<i>Age</i>	<i>Retirement Date</i>	<i>Years of Service</i>	<i>Option</i>
John T. McLaughlin	67	02/10/2019	7.5	ST
Leroy E. Eadie	51	02/13/2019	25.1	ST
Nicholas B. Codd	65	04/02/2019	39.2	E

Candace Mumm moved and Mike Cavanaugh seconded the motion to approve the service retirements as amended on the February Retirement Transaction Report. The motion passed unanimously.

Ms. Shisler informed the Board of Mr. Vance Peterson's rescission of his retirement application that was previously approved in February. Mr. Peterson chose to rescind his application due to his dual member status and the rules DRS has regarding a cap on the years of service between both plans and the effect on his monthly annuity.

Withdrawals for February 2019

<i>Name</i>	<i>Years of Service</i>	<i>Termination Date</i>
Claude P. Angeli	4.2	05/31/2018
Katherine A. Bitz	0.4	07/06/2018
Michael L. Graham	0.9	07/31/2018
Dawn M. Kinder (corrected)	2.7	12/26/2018
Steven E. Riggs	4.2	01/11/2019
Pamela J. Marske	8.9	01/24/2019

Candace Mumm pointed out the misspelling of Ms. Kinder's last name.

Jim Tieken moved and Candace Mumm seconded the motion to approve the requests for withdrawal as amended on the February 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>
Gregory A. Smith	02/02/2013	71	12/25/2018	Contribution Balance Paid Out
Patricia C. Stanton	01/03/1996	87	01/23/2019	No Further Benefits
Judith M. Quinlivan	07/03/2002	68	02/07/2019	No Further Benefits
Dennis R. Williams	01/08/2008	73	01/25/2019	D Option Continues

Death information provided to the Board for review.

Expenditure Summary Report – December 2018 and January 2019

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

Jim Tieken moved and Mike Cavanaugh seconded the motion to approve the December 2018 and January 2019 Expenditure Summary Reports. The motion passed unanimously.

Schedule of Investments – January 2019

The monthly investment report was presented to the Board for review. The estimated market value of the SERS portfolio on January 31, 2019 was \$293.6 million with an estimated monthly rate of return of 8.3%.

Monthly Cash Reconciliation

The monthly cash reconciliation report for February 2019 was presented to provide the Board with additional insight into the ongoing liquidity and cash position of the plan.

Other Business

Mr. Tencick updated the Board on the status of Senate Bill 5240 (SB5240). The Bill currently seems to be stalled. March 1, 2019 is the deadline for any Bill to pass the Ways & Means committee and the agenda does not list SB5240.

Mr. Tencick also gave an update on the Spokane Regional Emergency Communications (SREC) regarding a city employee being offered a position by the new entity. Without a formal policy in place, the move would be treated the same as if any member left employment with the City and was hired by the County. The member would be considered a dual member with service time in SERS and PERS both.

Upcoming Board Election

Mike Coster's term on the Board runs through June 30, 2019. Mike Coster informed the Board of his intent to run again for the Board position.

Other Business

Mr. Tencick revisited the meeting time for the SERS Board meetings by suggesting the first Wednesday of each month for the Board meetings. Discussion ensued and Candace Mumm asked if a Doodle poll had been sent to gather the dates and times that would work for the Board members. Mr. Tencick will send a survey out to find which time will work the best for the members of the Board.

There being no other business, the meeting adjourned at 1:53 p.m.

Phillip Tencick, Retirement Director

SERS Retirement Transaction Report

March 2019

Retirements

	Name	Age	Retirement Date	Years of Service	Department	Option
1	Thomas E. Danek	52	02/01/2019	3.9 Portability	Mayor	E
2	Andrew C. Hess	67	03/19/2019	18.7	Public Defender	E
3	Joan M. Hamilton	61	04/01/2019	27.5	Information Technology	ST
4	Matthew M. Doval	54	04/02/2019	13.1	Accounting	ST
5	Joan P. Medina	50	04/06/2019	30.6	Library	C-20
6	John R. Johnson	60	04/19/2019	29.6	Street	E
7	Michael W. Nauroth	67	05/03/2019	18.4	Golf	E
8	Cathleen E. Johnson	61	05/04/2019	15.6	Fire	ST
	Retirements YTD	18				
	2018 Total Retirements	71				

Withdrawals

	Name	Years of Service	Department	Termination Date
1	Vance W. Peterson	1.1	Legal	10/02/1982
2	Jeffrey S. Cross	2.6	Library	09/09/2014
3	Michele R. Frachiseur	0.7	Development Services Center	03/24/2017
4	Marie A. Coulter	0.3	Police Records	11/08/2018

Vesting

	Name	Department	Years of Service
1	Brian R. Bowman	Water	5.7

Deaths

	Name	Date Retired	Age	Date of Death	Information
1	Linda C. Brown	01/20/2011	64	02/18/2019	No Further Benefits
2	Genevieve E. Voss	08/02/1991	83	03/11/2019	No Further Benefits

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
 2019 EXPENDITURE SUMMARY REPORT
FEBRUARY 28, 2019

	2018 ACTUAL	2019 BUDGET	FEBRUARY ACTUAL EXPENDITURES	2019 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
OPERATING EXPENDITURES						
Departmental Salaries	279,090.86	297,357.00	21,920.00	31,734.32	265,622.68	10.7%
Departmental Benefits	83,448.34	88,446.00	6,569.00	11,330.25	77,115.75	12.8%
Reserve for Budget Adjustment	-	10,000.00	-	-	10,000.00	0.0%
Administrative Income	(19,374.47)	(10,000.00)	-	-	(10,000.00)	
Postage/Supplies/Other	1,970.14	5,950.00	161.68	161.68	5,788.32	2.7%
State Audit Charges	12,444.28	15,000.00	184.35	184.35	14,815.65	1.2%
Contractual Services	132,743.15	175,000.00	-	-	175,000.00	0.0%
Travel	7,873.31	15,000.00	326.52	326.52	14,673.48	2.2%
Registration/Schooling	8,575.00	16,000.00	185.00	185.00	15,815.00	1.2%
Other Dues/Subscriptions/Membership	1,709.60	2,500.00	-	150.00	2,350.00	6.0%
Other Miscellaneous Charges	1,383.13	3,800.00	123.04	330.27	3,469.73	8.7%
Amortization	17,649.00	-	-	-	-	
TOTAL OPERATING EXPENDITURES	527,512.34	619,053.00	29,469.59	44,402.39	574,650.61	7.2%
INTERFUND EXPENDITURES						
Interfund - Office Performance Mgmt Services	-	800.00	-	-	800.00	0.0%
Interfund - Centralized Purchasing	506.33	1,241.00	-	311.50	929.50	25.1%
Interfund - Centralized Accounting	1,958.16	2,080.00	-	520.00	1,560.00	25.0%
Interfund - Risk Management	790.00	584.00	146.00	146.00	438.00	25.0%
Interfund - Worker's Compensation	109.00	122.00	30.50	30.50	91.50	25.0%
Interfund - Reprographics	6,719.51	5,000.00	1,299.97	1,299.97	3,700.03	26.0%
Interfund - IT	15,824.72	13,108.00	1,095.76	1,095.76	12,012.24	8.4%
Interfund - IT Replacement	2,066.04	1,965.00	163.75	163.75	1,801.25	8.3%
Interfund - My Spokane	476.90	643.00	-	154.58	488.42	24.0%
TOTAL INTERFUND EXPENDITURES	28,450.66	25,543.00	2,735.98	3,722.06	21,820.94	14.6%
TOTAL ADMINISTRATIVE EXPENDITURES	555,963.00	644,596.00	32,205.57	48,124.45	596,471.55	7.5%

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
 2019 EXPENDITURE SUMMARY REPORT
FEBRUARY 28, 2019

	2018 ACTUAL	2019 BUDGET	FEBRUARY ACTUAL EXPENDITURES	2019 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
PENSIONS						
Pensions-Annuity Benefit Payments	26,202,801.23	28,000,000.00	2,251,157.95	4,494,452.03	23,505,547.97	16.1%
Pensions-Disability Payments	125,328.48	140,000.00	10,444.04	20,888.08	119,111.92	14.9%
Pensions-Survivor Annuity Benefits Payments	1,981,214.54	2,100,000.00	232,185.58	404,459.61	1,695,540.39	19.3%
TOTAL PENSIONS	<u>28,309,344.25</u>	<u>30,240,000.00</u>	<u>2,493,787.57</u>	<u>4,919,799.72</u>	<u>25,320,200.28</u>	16.3%
Refunds	554,422.11	1,000,000.00	107,500.36	107,500.36	892,499.64	10.8%
TOTAL EXPENSES	<u><u>29,419,729.36</u></u>	<u><u>31,884,596.00</u></u>	<u><u>2,633,493.50</u></u>	<u><u>5,075,424.53</u></u>	<u><u>26,809,171.47</u></u>	15.9%
INVESTMENT EXPENSE*						
Advisory Technical Service	436,405.71	500,000.00	28,625.76	9,816.58	490,183.42	2.0%

* 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

February 28, 2019

3/18/2019

	Type		Allocation		
			Target	Current	Diff.
Cash Held by Treasurer	Cash	\$ 55,482			
US Bank	Short-term Inv	215,805			
Total Cash		271,287	0.0%	0.1%	0.1%
Sterling Capital	Total Return	25,205,951			
Total Total Return		25,205,951	10.0%	8.4%	-1.6%
Hotchkis & Wiley	High Yield - Mutual Fund	13,132,646			
Total High Yield		13,132,646	5.0%	4.4%	-0.6%
Polar	LLC	6,958,504			
Castine Capital II	Ltd Partnership	7,714,623			
Post Limited Term High Yield	Ltd Partnership	6,224,867			
Rimrock Low Volatility	Ltd Partnership	9,995,992			
Total Absolute Return		30,893,986	8.0%	10.3%	2.3%
Total Capital Preservation		69,503,870	23.0%	23.2%	0.2%
Hotchkis & Wiley	LC Value - Mutual Fund	15,752,232			
Jackson Square	LC Growth - Mutual Fund	15,876,265			
MFS Heritage	LC Core	14,505,663			
Fidelity S&P 500 Index	LC Core - Mutual Fund	12,019,640			
Total US Large Cap		58,153,800	21.0%	19.4%	-1.6%
Sterling	MC Value	4,595,486			
Vanguard MC Growth	MC Growth - Mutual Fund	4,159,816			
Fidelity MC Index	MC Core - Mutual Fund	4,086,453			
Champlain	SC Core	6,422,940			
Phocas	SC Value - Mutual Fund	3,853,598			
Bridge City	SC Growth	5,672,122			
Fidelity SC Index	SC Core - Mutual Fund	898,550			
Total US Small/Mid Cap		29,688,965	11.0%	9.9%	-1.1%
Total US Equities		87,842,765	32.0%	29.3%	-2.7%
Artisan	SMID Value - Mutual Fund	21,542,401			
Euro Pacific	LC Blend - Mutual Fund	21,121,014			
Fidelity International	LC Index - Mutual Fund	-			
Total International Large Cap		42,663,415	15.0%	14.2%	-0.8%
Trivalent	SC Value - Mutual Fund	11,976,935			
Total International Small/Mid		11,976,935	4.0%	4.0%	0.0%
Vanguard EM Index	EM - Mutual Fund	1,163,434			
ABS Emerging Markets	Ltd Partnership	8,084,555			
Berens	Ltd Partnership	936,212			
Total Emerging Markets		10,184,201	3.0%	3.4%	0.4%
Total International Equities		64,824,551	22.0%	21.6%	-0.4%
Weatherlow Offshore	Ltd Partnership	15,419,085			
Royalty Opportunities I	Ltd Partnership	2,293,451			
Royalty Opportunities II	Ltd Partnership	3,105,281			
Total Long Biased		20,817,817	7.0%	6.9%	-0.1%
Metropolitan Real Estate Partners	Ltd Partnership	200,819			
Morrison Street Fund V	LLC	4,128,162			
Morrison Street Debt Opportunities	LP	4,146,895			
Morgan Stanley Prime	LLC	7,322,492			
Principal (REITs)	REITs	12,085,843			
Total Real Estate		27,884,211	9.0%	9.3%	0.3%
Contrarian Capital Fund I	Ltd Partnership	8,592,952			
Beach Point	Ltd Partnership	10,546,625			
Total Opportunistic Credit		19,139,577	7.0%	6.4%	-0.6%
Contrarian EM Credit	LLC	6,345,957			
OrbiMed II	Ltd Partnership	3,771,601			
Total Special Opportunities		10,117,558	0.0%	3.4%	3.4%
Total Cash and Investments		\$ 300,130,349	100.0%	100.0%	0.0%
	Monthly Contributions	1,488,180			
	Monthly Pension	\$ (2,579,519)			
	As of January 31, 2019	\$ 293,598,275			
	Estimated Rate of Return	2.6%			
Abs. Return and Total Return FI	Thesis 2017.1	56,099,937	18.0%	18.7%	0.7%
Equity and Special Situations	Thesis 2017.3	162,784,874	54.0%	54.2%	0.2%

Cash Recon - Mar

Date	Transactions	Sources	Uses	Balance
2/21/2019	Beginning Balance			2,792,592.03
2/28/2019	Pension Payments		(2,579,519.29)	213,072.74
3/1/2019	Interest	2,732.47		215,805.21
3/4/2019	Payroll Contributions	766,352.84		982,158.05
3/5/2019	Cash Sweep	0.03		982,158.08
3/6/2019	Redeposit/Reissue Payments	1,280.28	(1,280.28)	982,158.08
3/7/2019	Redeposit/Reissue Payments	1,019.72	(655.53)	982,522.27
3/8/2019	Sale - MFS Research Core Large Cap	14,531,427.69		15,513,949.96
3/8/2019	Purchase - Fidelity S&P 500		(14,531,427.69)	982,522.27
3/15/2019	Distribution - Royalty Opps II	162,486.01		1,145,008.28
3/18/2019	Payroll Contributions	750,184.90		1,895,193.18
3/19/2019	Wire - City Operating Account		(100,000.00)	1,795,193.18
3/20/2019	Ending Balance	16,215,483.94	(17,212,882.79)	1,795,193.18
	<u>Upcoming</u>			
3/28/2019	Sale	700,000.00		
3/29/2019	March Pension Payments		(2,470,028.94)	
4/1/2019	Payroll Contributions	750,000.00		

EXEMPT CONFIDENTIAL ANALYSIS

March 27, 2019



Background

The Retirement Department was asked to evaluate the impact of providing exempt confidential employees the ability to participate in a yet to be determined defined contribution plan instead of SERS.

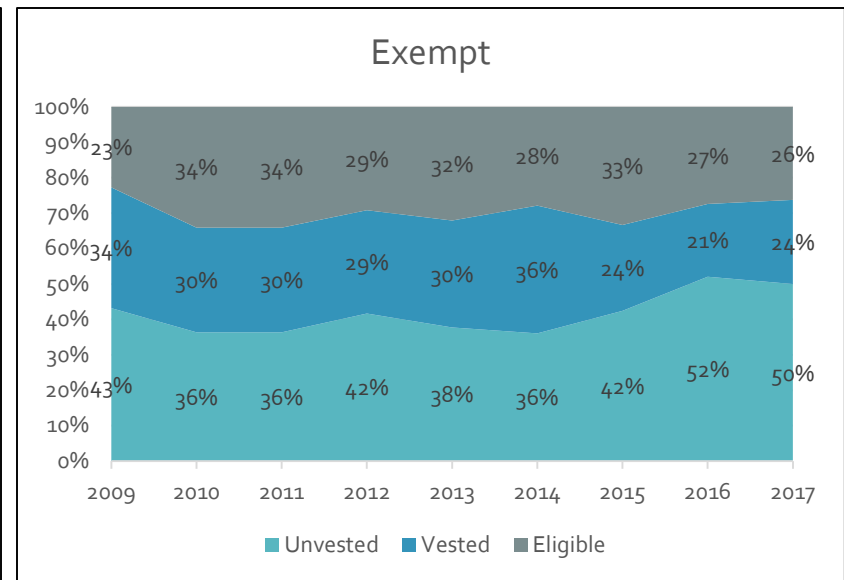
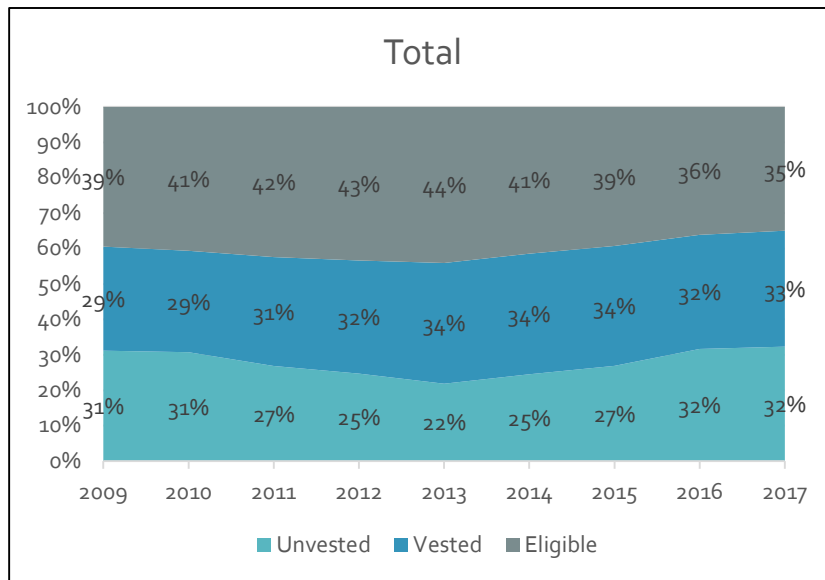
Demographics

- Exempt Confidential employees:
 - Higher Salaries, with larger skew
 - Less Service, with larger skew
 - Better funded
 - Small Sample

		Population		Exempt	
		<u>N</u>	<u>%</u>	<u>N</u>	<u>%</u>
Eligibility	Active	1445	100%	36	100%
	Unvested	498	34%	21	58%
	Vested	947	66%	15	42%
	Eligible	463	32%	7	19%
		<u>Mean</u>	<u>Median</u>	<u>Mean</u>	<u>Median</u>
Demographics	Age	47.5	48.4	46.8	47.3
	Service	11.2	9.8	7.7	4.2
	Salary	\$ 66,085	\$ 65,181	\$ 101,033	\$ 107,237
	Contributions	\$ 61,638	\$ 47,883	\$ 66,498	\$ 36,158
Est. Funding	Total	113%		139%	

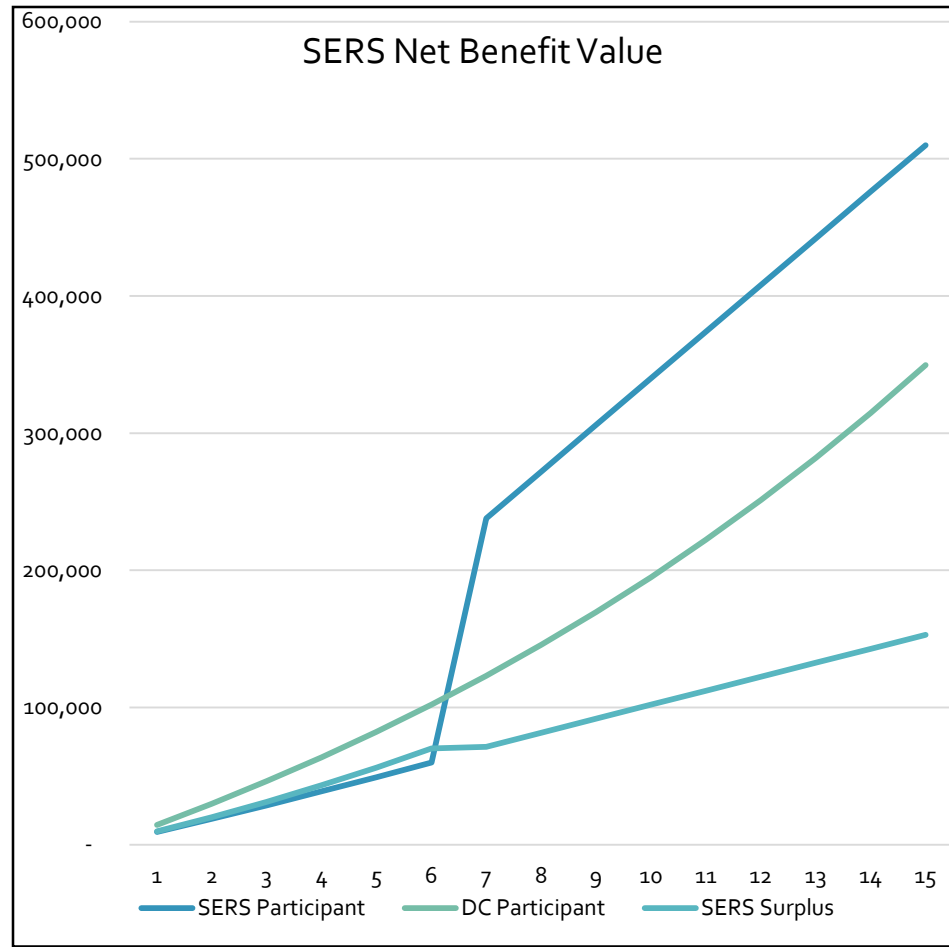
Eligibility Trends

- Increase of non-vested population
 - Longer vesting with Rule of 75 and 80
 - Increased staff in Mayor's office
 - More pronounced than total population



Financial Impact

- Vested: SERS worth 3.3X
- Non-Vested: DC worth 1.2X
- Surplus is linear, regardless of vesting
- DC participant provides no surplus
 - Max impact ~\$360k per year
 - 38bp increase in contributions to offset



Other Considerations

- Defined contribution vehicle – 457 vs. 401(a)
- Requires amending SMC to enact
- Requires evaluation for compliance with IRS plan amendment requirements (e.g. discrimination testing)
- Impact varies with default option: opt-in, opt-out, or A vs. B enroll
- Impact on employee attraction and retention
- Employee selection as signal of intent
- Implementation timeline

LONG-TERM FUNDING STRATEGY

March 27, 2019



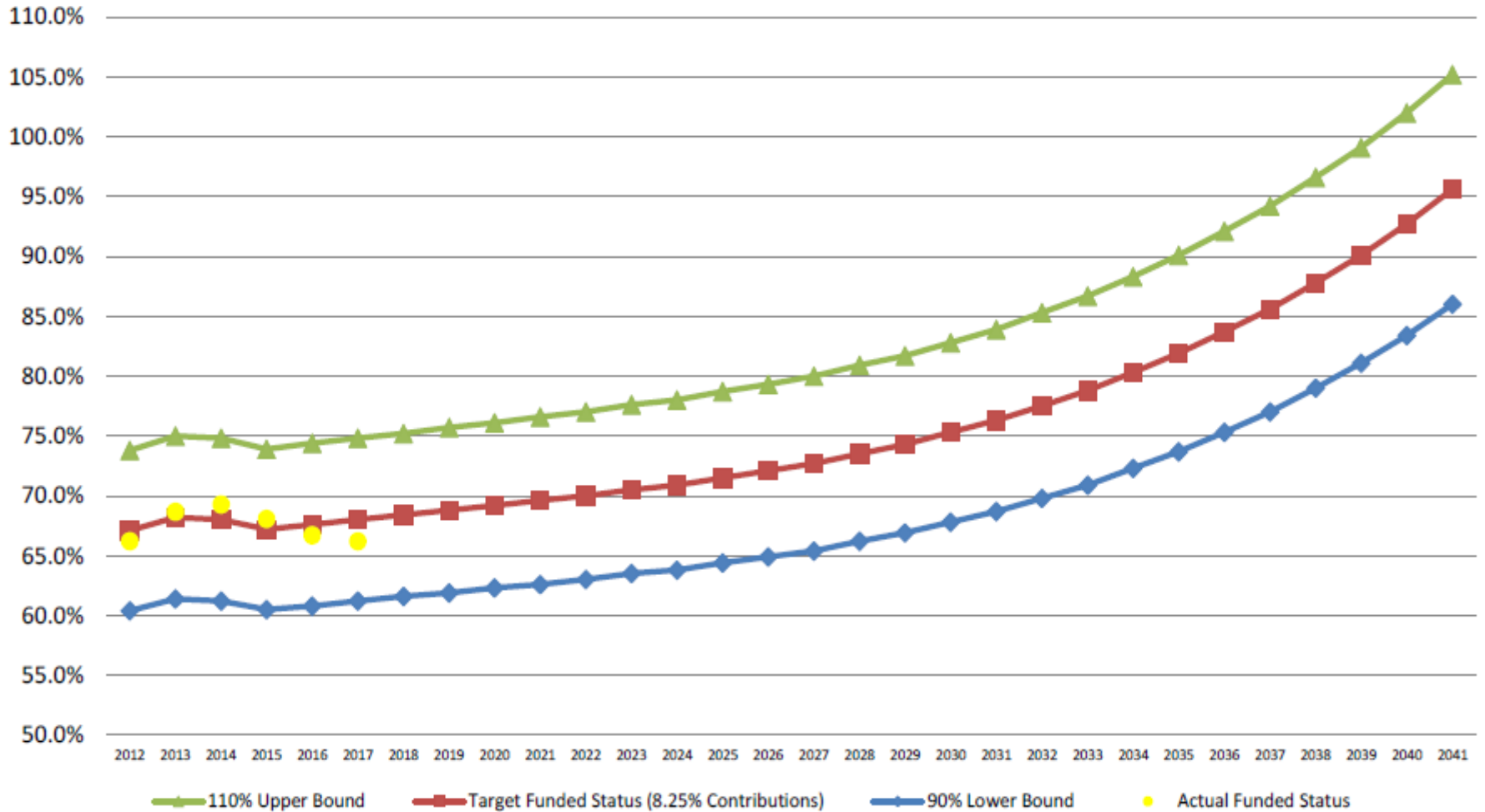
Background

The mechanism to keep contribution rates equal to the Actuarially Determined Contribution (ADC) rate improved the plan's trajectory to fully funded status.

As funding status improves, it will be necessary to evaluate trade-offs related to risk, cost, and time when determining investment strategy, contribution rates, actuarial assumptions, and plan design.

Glide Path

Funded Status Glide Path

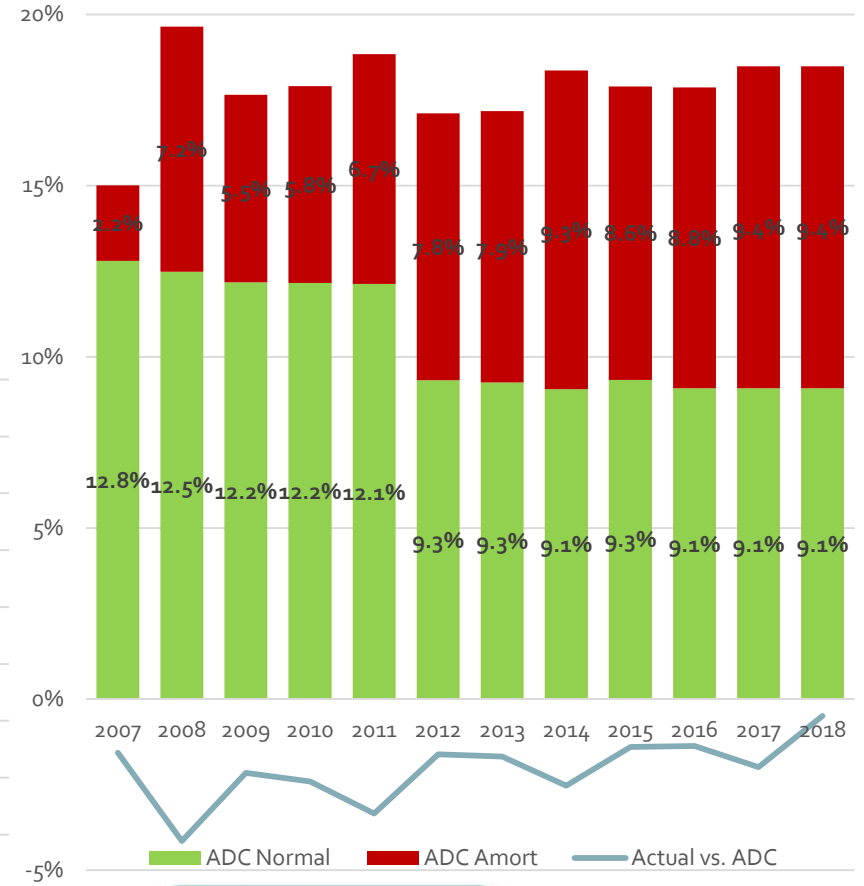


Contribution Rate Analysis

Funding Status by Tier

	Members	Liability (\$Ms)	Liability/Member	Assets (\$Ms)	Funding
Retired/Vested	1,467	271,938	185,370	279,999	63.7%
Active 5/50	800	167,951	209,939		
Active Rule 75	325	15,301	47,080	23,779	155.4%
Active Rule 80	319	2,929	9,183	4,858	165.8%
Total	2,933	458,119	157,375	308,637	67.4%

Contributions by Type



Contributions by Tier

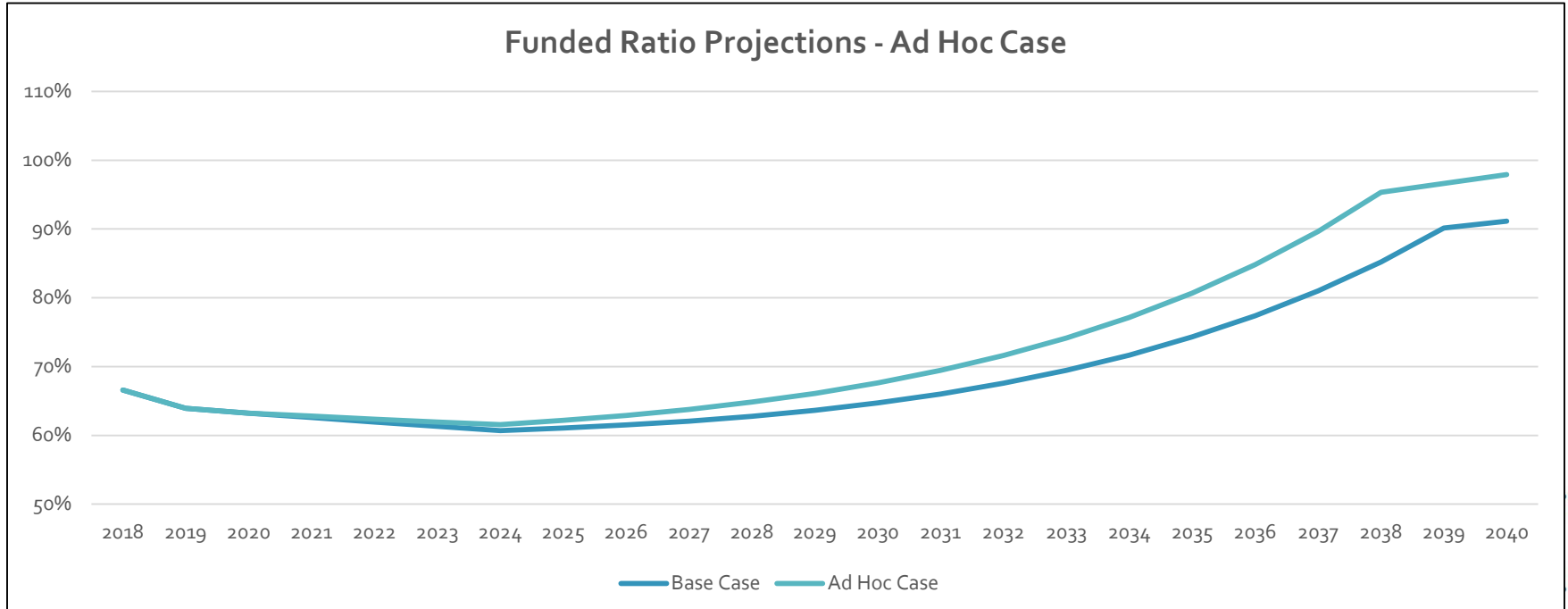


Scenario Analysis

- 5 Yr return comparisons

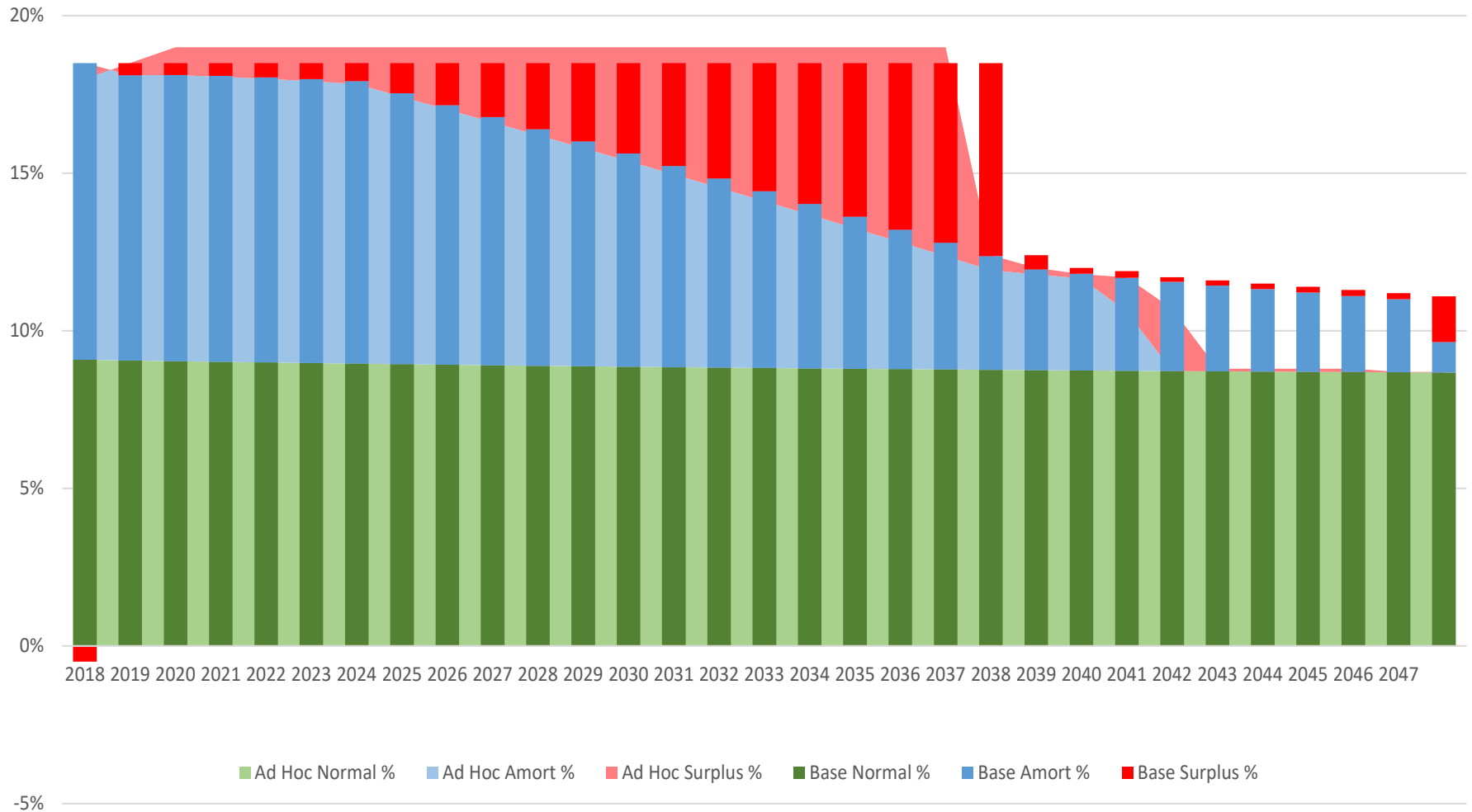
<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
-6.27%	15.40%	6.71%	-0.94%	5.34%	18.89%
3.79%			8.85%		

- Sequence: Shortfall → Surplus



Contribution Rate Components

Contribution Rate Comparison - Ad Hoc Case



Offsetting Priorities

- When contributions differ from ADC, the funding ratio will deviate from the glide path
 - How much deviation is acceptable?
 - Which goals have priority in surplus scenarios?

Goal	Target	Range	Certainty
Funding	90%	+/- 10%	<i>Low</i>
Time	2039		<i>Low</i>
Risk	7.5% Return		<i>Moderate</i>
Cost	ADC		<i>High</i>
Benefits	Ad hoc		<i>High</i>