

**Spokane Employees' Retirement System (SERS)**  
**Board Meeting, 12:00 p.m. July 31, 2019**  
**City Hall – Council Briefing Center**

**AGENDA**

- 1) Minutes of the June 26, 2019 Meeting
  - Motion
  
- 2) Director's Report
  - a) Retirements
    - Motion
  - b) Withdrawals
    - Motion
  - c) Deaths
    - Information
  - d) Expenditure Summary Report – June 2019
    - Motion
  - e) Schedule of Investments – June 2019
    - Information
  - f) Cash Reconciliation – July 2019
    - Information
  - g) Other Business
  
- 3) Active Risk Primer
  
- 4) Other Business
  
- 5) Next Meeting – **Wednesday, August 28<sup>th</sup> at 12:00 p.m.**

**Spokane Employees' Retirement System (SERS)  
Board Meeting Minutes  
June 26, 2019**

The regular monthly meeting was called to order at 12:02 p.m. in the Council Briefing Center at City Hall.

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

**Absent:** Candace Mumm and J.D. Morscheck

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

**Guests:** Tammy Erickson and Ashlee Lent (Moss Adams), Joe Cavanaugh, Richard Czernik, and Natalie Hilderbrand

**Moss Adams – December 31, 2018 Audit Report**

Moss Adams presented the 2018 SERS independent audit report. The auditors explained how they test critical areas such as the investment assets, investment income, contributions, benefit payments and participant data. Moss Adams issued an unqualified (clean) opinion. They had no negative comments or areas of concern in the management letter, which reflects the continuing diligence of staff.

**Minutes of the May 29, 2019 Meeting**

Jim Tieken moved and Mike Cavanaugh seconded the motion to approve the minutes of the May 29, 2019 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>
Andrew E. Schenk	50	07/01/2019	16.3	E
Karen C. Burke	58	07/02/2019	18.2	ST
Dennis C. Powell	58	07/02/2019	23.7	E
David R. Carlson	60	07/06/2019	25.9	E
Rick A. McCord	62	08/09/2019	25.4	E

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

Withdrawals for June 2019

<i>Name</i>	<i>Years of Service</i>	<i>Termination Date</i>
Mubarak F. Abdur-Raheem	4.3	03/08/2019
Corinne A. Hall	1.0	04/05/2019
Jennifer M. Ingerson	2.9	04/22/2019

Mike Cavanaugh moved and Dean Kiefer seconded the motion to approve the requests for withdrawal as presented on the June Retirement Transaction Report. The motion passed unanimously.

Vesting

<i>Name</i>	<i>Department</i>	<i>Years of Service</i>
Julie D. Happy	Economic Development	6.0

Deaths

<i>Name</i>	<i>Date Retired</i>	<i>Age</i>	<i>Date of Death</i>	<i>Information</i>
Barbara A. Hill	04/15/2006	76	02/12/2019	No Further Benefits
Marion Rothstein	11/02/1990	93	05/02/2019	No Further Benefits
Dorothy J. Jones	02/08/2013	90	05/15/2019	No Further Benefits
Myrna F. Johnson-Ross	03/04/2003	77	05/23/2019	No Further Benefits
Barbara L. Parker	03/05/1992	86	05/24/2019	No Further Benefits
Thomas E. Perry	06/03/1986	90	06/05/2019	No Further Benefits
Albert J. Powell	08/06/2011	74	06/08/2019	No Further Benefits

Vesting and Death information provided to the Board for review.

Expenditure Summary Report – May 2019

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

Mike Cavanaugh moved and Jim Tieken seconded the motion to approve the May 2019 Expenditure Summary Report. The motion passed unanimously.

Schedule of Investments – May 2019

The monthly investment report was presented to the Board for review. The estimated market value of the SERS portfolio on May 31, 2019 was \$297.3 million with an estimated rate of return of -3.0% 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.

### Other Business

Mr. Tencick updated the Board on the initiative to allow SERS members to retain their membership if they move to SREC during its initial launch. The affected participants have been notified. The formal agreement with SREC has been drafted and will be approved by the SREC Board before employees start at SREC. The plan document changes are being reviewed by outside counsel.

### 2020 Budget

The 2020 Budget was presented to the Board and discussed.

Mike Cavanaugh moved and Jim Ticken seconded the motion to adopt the 2020 Budget as presented. The motion passed unanimously.

### Contribution Interest Rate

Mr. Tencick presented information on the US Treasury rates used to determine the Plan interest rate on member contributions. From July 1, 2018 to June 30, 2019, the average 5-year US Treasury Note rate, rounded to the nearest 25 basis points, was 2.50%. This rate will become effective July 1, 2019, and is an increase from the previous rate of 2.25%.

Jim Ticken moved and Mike Cavanaugh seconded the motion to change the contribution interest rate from 2.25% to 2.50%. The motion passed unanimously.

There being no other business, the meeting adjourned at 12:51 p.m.

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**Phillip Tencick, Retirement Director**

## SERS Retirement Transaction Report

### July 2019

#### *Retirements*

	<b>Name</b>	<b>Age</b>	<b>Retirement Date</b>	<b>Years of Service</b>	<b>Department</b>	<b>Option</b>
1	Melora Sharts	63	07/27/2019	20.1	CD/HS Operations	ST
2	Douglas E. Nelson	65	08/02/2019	18.4	Street	ST
3	Melinda J. Kelleher	65	08/03/2019	17.8	Public Works & Utilities	ST
4	Lillian S. Tang	69	08/03/2019	27.7	Public Defender	ST
5	Ronald C. Moore	52	08/05/2019	10.6	Fleet Services	D
6	Kenneth C. Gimpel	62	09/01/2019	5.3	Solid Waste Disposal	E
7	Dennis P. Flynn	50	09/01/2019	5.7	Library	E
8	Mary T. Badeaux	69	09/07/2019	21.1	Public Works & Utilities	ST
9	Lesley J. Williams	50	09/21/2019	22.4	Advanced Wastewater Treatment	ST
	Retirements YTD	48				
	2018 Total Retirements	71				

#### *Withdrawals*

	<b>Name</b>	<b>Years of Service</b>	<b>Department</b>	<b>Termination Date</b>
1	Adam N. Miles	3.6	Street	04/03/2019
2	Timofey V. Solodyankin	2.3	Fleet Services	06/07/2019
3	Bryce J. Leming	1.4	Combined Communications	07/01/2019

#### *Deaths*

	<b>Name</b>	<b>Date Retired</b>	<b>Age</b>	<b>Date of Death</b>	<b>Information</b>
1	James W. Davis, Jr.	10/05/1996	83	06/10/2019	E Option Continues
2	Paul T. Jewett	11/04/1993	76	06/23/2019	E Option Continues
3	Patricia A. Minnihan	08/04/2009	69	06/19/2019	No Further Benefits
4	Kathleen J. Kuntz	09/08/2009	70	07/04/2019	No Further Benefits
5	Sara J. B. Green	02/12/2005	76	07/07/2019	No Further Benefits
6	Elizabeth L. Humphreys	02/14/2014	89	07/03/2019	No Further Benefits

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100  
 2019 EXPENDITURE SUMMARY REPORT  
**JUNE 30, 2019**

	2018 ACTUAL	2019 BUDGET	JUNE ACTUAL EXPENDITURES	2019 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
<b>OPERATING EXPENDITURES</b>						
Departmental Salaries	279,090.86	297,357.00	21,920.00	130,114.32	167,242.68	43.8%
Departmental Benefits	83,448.34	88,446.00	6,568.11	39,424.54	49,021.46	44.6%
Reserve for Budget Adjustment	-	10,000.00	-	-	10,000.00	0.0%
Administrative Income	(19,374.47)	(10,000.00)	(5,276.24)	(10,990.13)	990.13	
Postage/Supplies/Other	1,970.14	5,950.00	42.10	841.70	5,108.30	14.1%
State Audit Charges	12,444.28	15,000.00	1,342.47	1,655.14	13,344.86	11.0%
Contractual Services	132,743.15	175,000.00	15,000.00	91,722.01	83,277.99	52.4%
Travel	7,873.31	15,000.00	1,798.40	2,405.51	12,594.49	16.0%
Registration/Schooling	8,575.00	16,000.00	-	285.00	15,715.00	1.8%
Other Dues/Subscriptions/Membership	1,709.60	2,500.00	-	486.40	2,013.60	19.5%
Other Miscellaneous Charges	1,383.13	3,800.00	55.00	1,885.28	1,914.72	49.6%
Amortization	17,649.00	-	-	-	-	
<b>TOTAL OPERATING EXPENDITURES</b>	<b>527,512.34</b>	<b>619,053.00</b>	<b>41,449.84</b>	<b>257,829.77</b>	<b>361,223.23</b>	<b>41.6%</b>
<b>INTERFUND EXPENDITURES</b>						
Interfund - Office Performance Mgmt Services	-	800.00	-	-	800.00	0.0%
Interfund - Centralized Purchasing	506.33	1,241.00	-	620.50	620.50	50.0%
Interfund - Centralized Accounting	1,958.16	2,080.00	-	1,040.00	1,040.00	50.0%
Interfund - Risk Management	790.00	584.00	-	292.00	292.00	50.0%
Interfund - Worker's Compensation	109.00	122.00	-	61.00	61.00	50.0%
Interfund - Reprographics	6,719.51	5,000.00	-	3,685.26	1,314.74	73.7%
Interfund - IT	15,824.72	13,108.00	1,094.27	5,483.24	7,624.76	41.8%
Interfund - IT Replacement	2,066.04	1,965.00	163.75	818.75	1,146.25	41.7%
Interfund - My Spokane	476.90	643.00	-	309.16	333.84	48.1%
<b>TOTAL INTERFUND EXPENDITURES</b>	<b>28,450.66</b>	<b>25,543.00</b>	<b>1,258.02</b>	<b>12,309.91</b>	<b>13,233.09</b>	<b>48.2%</b>
<b>TOTAL ADMINISTRATIVE EXPENDITURES</b>	<b>555,963.00</b>	<b>644,596.00</b>	<b>42,707.86</b>	<b>270,139.68</b>	<b>374,456.32</b>	<b>41.9%</b>

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100  
 2019 EXPENDITURE SUMMARY REPORT  
**JUNE 30, 2019**

	2018 ACTUAL	2019 BUDGET	JUNE ACTUAL EXPENDITURES	2019 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
<b>PENSIONS</b>						
Pensions-Annuity Benefit Payments	26,202,801.23	28,000,000.00	2,314,610.57	13,665,089.32	14,334,910.68	48.8%
Pensions-Disability Payments	125,328.48	140,000.00	10,444.04	62,664.24	77,335.76	44.8%
Pensions-Survivor Annuity Benefits Payments	1,981,214.54	2,100,000.00	171,312.56	1,096,434.30	1,003,565.70	52.2%
<b>TOTAL PENSIONS</b>	<u>28,309,344.25</u>	<u>30,240,000.00</u>	<u>2,496,367.17</u>	<u>14,824,187.86</u>	<u>15,415,812.14</u>	49.0%
Refunds	554,422.11	1,000,000.00	41,937.63	308,967.84	691,032.16	30.9%
<b>TOTAL EXPENSES</b>	<u><u>29,419,729.36</u></u>	<u><u>31,884,596.00</u></u>	<u><u>2,581,012.66</u></u>	<u><u>15,403,295.38</u></u>	<u><u>16,481,300.62</u></u>	48.3%
<b>INVESTMENT EXPENSE*</b>						
Advisory Technical Service	436,405.71	500,000.00	10,963.47	150,927.46	349,072.54	30.2%

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

SERS Schedule of Cash and Investments

June 30, 2019

7/25/2019

	Type		Allocation		
			Target	Current	Diff.
Cash Held by Treasurer	Cash	\$ 156,436			
US Bank	Short-term Inv	1,067,112			
<b>Total Cash</b>		<b>1,223,548</b>	<b>0.0%</b>	<b>0.4%</b>	<b>0.4%</b>
Sterling Capital	Total Return	25,826,314			
<b>Total Total Return</b>		<b>25,826,314</b>	<b>10.0%</b>	<b>8.4%</b>	<b>-1.6%</b>
Hotchkis & Wiley	High Yield - Mutual Fund	13,461,407			
<b>Total High Yield</b>		<b>13,461,407</b>	<b>5.0%</b>	<b>4.4%</b>	<b>-0.6%</b>
Polar	LLC	7,245,251			
Castine Capital II	Ltd Partnership	7,680,852			
Post Limited Term High Yield	Ltd Partnership	6,335,511			
Rimrock Low Volatility	Ltd Partnership	10,098,509			
<b>Total Absolute Return</b>		<b>31,360,123</b>	<b>8.0%</b>	<b>10.2%</b>	<b>2.2%</b>
<b>Total Capital Preservation</b>		<b>71,871,392</b>	<b>23.0%</b>	<b>23.3%</b>	<b>0.3%</b>
Hotchkis & Wiley	LC Value - Mutual Fund	16,242,072			
Jackson Square	LC Growth - Mutual Fund	17,324,883			
MFS Heritage	LC Core	-			
Fidelity S&P 500 Index	LC Core - Mutual Fund	28,231,757			
<b>Total US Large Cap</b>		<b>61,798,712</b>	<b>21.0%</b>	<b>20.1%</b>	<b>-0.9%</b>
Sterling	MC Value	4,707,076			
Vanguard MC Growth	MC Growth - Mutual Fund	4,451,268			
Fidelity MC Index	MC Core - Mutual Fund	4,291,216			
Champlain	SC Core	6,550,483			
Phocas	SC Value - Mutual Fund	3,871,183			
Bridge City	SC Growth	5,685,051			
Fidelity SC Index	SC Core - Mutual Fund	898,614			
<b>Total US Small/Mid Cap</b>		<b>30,454,891</b>	<b>11.0%</b>	<b>9.9%</b>	<b>-1.1%</b>
<b>Total US Equities</b>		<b>92,253,603</b>	<b>32.0%</b>	<b>30.0%</b>	<b>-2.0%</b>
Artisan	SMID Value - Mutual Fund	21,737,008			
Euro Pacific	LC Blend - Mutual Fund	21,837,490			
Fidelity International	LC Index - Mutual Fund	-			
<b>Total International Large Cap</b>		<b>43,574,498</b>	<b>15.0%</b>	<b>14.2%</b>	<b>-0.8%</b>
Trivalent	SC Value - Mutual Fund	11,798,725			
<b>Total International Small/Mid</b>		<b>11,798,725</b>	<b>4.0%</b>	<b>3.8%</b>	<b>-0.2%</b>
Vanguard EM Index	EM - Mutual Fund	1,194,543			
ABS Emerging Markets	Ltd Partnership	8,425,862			
Berens	Ltd Partnership	-			
<b>Total Emerging Markets</b>		<b>9,620,405</b>	<b>3.0%</b>	<b>3.1%</b>	<b>0.1%</b>
<b>Total International Equities</b>		<b>64,993,628</b>	<b>22.0%</b>	<b>21.1%</b>	<b>-0.9%</b>
Weatherlow Offshore	Ltd Partnership	15,952,974			
Royalty Opportunities I	Ltd Partnership	2,370,389			
Royalty Opportunities II	Ltd Partnership	3,307,349			
<b>Total Long Biased</b>		<b>21,630,712</b>	<b>7.0%</b>	<b>7.0%</b>	<b>0.0%</b>
Metropolitan Real Estate Partners	Ltd Partnership	182,173			
Morrison Street Fund V	LLC	2,608,945			
Morrison Street Debt Opportunities	LP	4,122,673			
Morgan Stanley Prime	LLC	7,343,183			
Principal (REITs)	REITs	11,693,187			
<b>Total Real Estate</b>		<b>25,950,161</b>	<b>9.0%</b>	<b>8.4%</b>	<b>-0.6%</b>
Contrarian Capital Fund I	Ltd Partnership	9,955,158			
Beach Point	Ltd Partnership	10,880,974			
<b>Total Opportunistic Credit</b>		<b>20,836,132</b>	<b>7.0%</b>	<b>6.8%</b>	<b>-0.2%</b>
Contrarian EM Credit	LLC	6,266,361			
OrbiMed II	Ltd Partnership	4,114,265			
<b>Total Special Opportunities</b>		<b>10,380,626</b>	<b>0.0%</b>	<b>3.4%</b>	<b>3.4%</b>
<b>Total Cash and Investments</b>		<b>\$ 307,916,254</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>
	Monthly Contributions	1,508,695			
	Monthly Pension	\$ 2,538,305			
	As of May 31, 2019	<b>\$ 297,120,101</b>			
	Estimated Rate of Return	2.2%			
<b>Abs. Return and Total Return FI</b>	Thesis 2017.1	<b>57,186,437</b>	<b>18.0%</b>	<b>18.6%</b>	<b>0.6%</b>
<b>Equity and Special Situations</b>	Thesis 2017.3	<b>167,627,857</b>	<b>54.0%</b>	<b>54.4%</b>	<b>0.4%</b>



## Cash Recon - Jul

Date	Transactions	Sources	Uses	Balance
<b>6/19/2019</b>	<b>Beginning Balance</b>			<b>768,062.65</b>
6/24/2019	Payroll Contributions	747,865.34		<b>1,515,927.99</b>
6/26/2019	Distribution - Royalty Opps II	649,350.65		<b>2,165,278.64</b>
6/27/2019	Distribution - Morrison Street V	415,208.27		<b>2,580,486.91</b>
6/27/2019	Final Distribution - Berens	936,212.05		<b>3,516,698.96</b>
6/28/2019	Distribution - Morgan Stanley Prime	72,245.38		<b>3,588,944.34</b>
6/28/2019	Distribution - Royalty Opps	16,620.34		<b>3,605,564.68</b>
6/28/2019	Redeposit/Reissue Check	1,188.26		<b>3,606,752.94</b>
6/28/2019	June Pension Payments		(2,541,055.33)	<b>1,065,697.61</b>
7/1/2019	Interest	1,414.80		<b>1,067,112.41</b>
7/8/2019	Payroll Contributions	753,335.54		<b>1,820,447.95</b>
7/9/2019	Redeposit/Reissue Check	1,718.86	(1,718.86)	<b>1,820,447.95</b>
7/19/2019	Distribution - Morrison Street MSDO	90,973.89		<b>1,911,421.84</b>
7/22/2019	Payroll Contributions	759,010.50		<b>2,670,432.34</b>
<b>7/24/2019</b>	<b>Ending Balance</b>	<b>4,445,143.88</b>	<b>(2,542,774.19)</b>	<b>2,670,432.34</b>
	<u>Upcoming</u>			
7/31/2019	July Pension Payments		(2,559,637.43)	

# ACTIVE RISK PRIMER

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July 31, 2019



# Basis of Active Risk

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- 1) Have to generate returns that differ from the market to overcome additional fees charged and meet return target
- 2) The greater the fee and/or return target, the greater the strategy will have to differ from the index

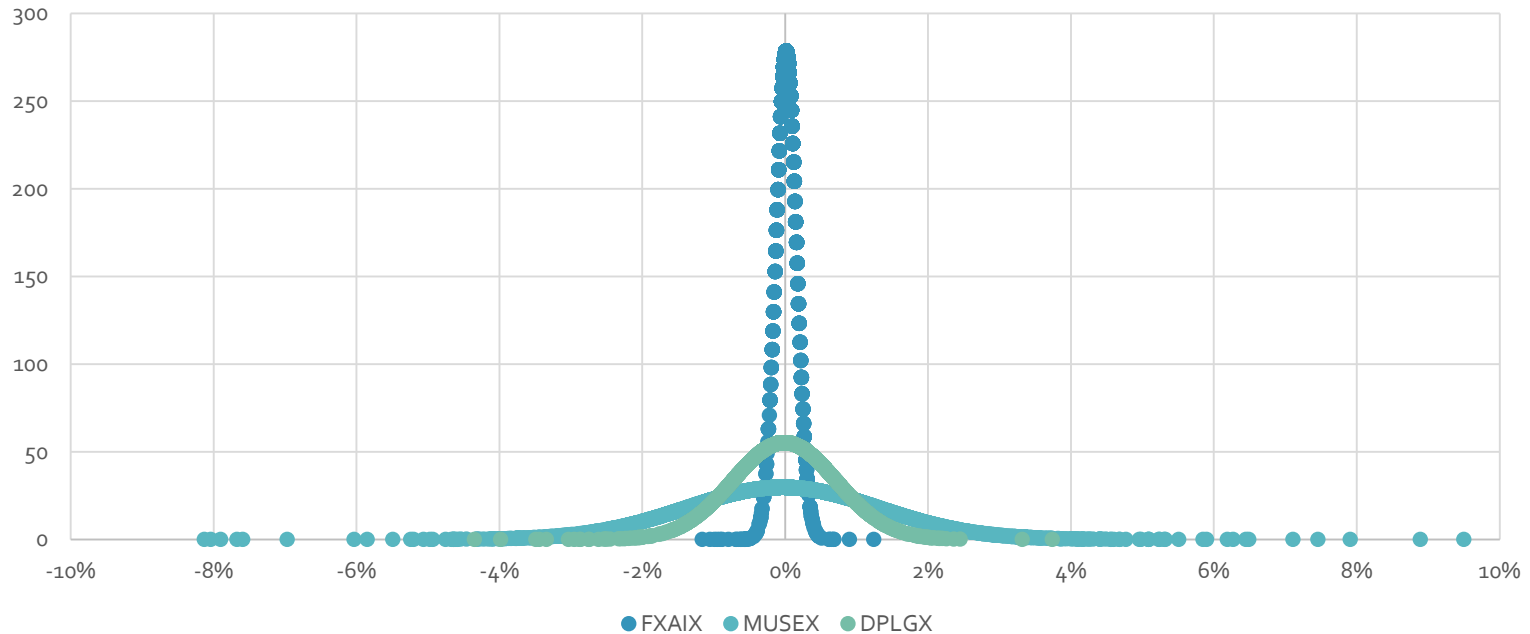
50bp Fees

+50bp Return Target

100bp Active Risk

# Dispersion of Outcomes

Daily Variance vs. S&P 500



	Fidelity Index FXAIX	MFS Core Blend MUSEX	Jackson Square DPLGX
Mean	0.0170%	(0.0563%)	(0.0133%)
Std Dev	0.1433%	1.3447%	0.8230%

# Sources of Active Risk

Factor	(Under)/ Overweight	Return	Index Return	Relative Performance	Attribution
Ford	1.00%	13.00%	5.00%	8.00%	0.08%
GM	-1.00%	8.00%	5.00%	3.00%	-0.03%
Financial	-1.00%	3.00%	5.00%	-2.00%	0.02%
Retail	1.00%	-5.00%	5.00%	-10.00%	-0.10%
Cash	2.00%	2.00%	5.00%	-3.00%	-0.06%
Stock Selection	2.00%			11.00%	0.05%
Industry	2.00%			-12.00%	-0.08%
Off Index	2.00%			-3.00%	-0.06%
<b>Total</b>	<b>6.00%</b>	<b>9.00%</b>	<b>5.00%</b>	<b>-4.00%</b>	<b>-0.09%</b>

# Evaluating Risk vs. Return

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$$\text{Sharpe Ratio} = \frac{\text{Portfolio Return} - \text{Risk Free Return}}{\text{Standard Deviation of Returns}}$$

$$\text{Treynor Ratio} = \frac{\text{Portfolio Return} - \text{Risk Free Return}}{\text{Beta of Returns}}$$

$$\text{Information Ratio} = \frac{\text{Average Return Difference}}{\text{Standard Deviation vs. Index}}$$

FXAIX
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$$\frac{0.0170\%}{0.1433\%} = 0.12$$

MUSEX
-------

$$\frac{-0.0563\%}{1.2203\%} = (0.05)$$

DPLGX
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$$\frac{-0.0133\%}{0.8230\%} = (0.02)$$



Spokane Employees'  
Retirement System

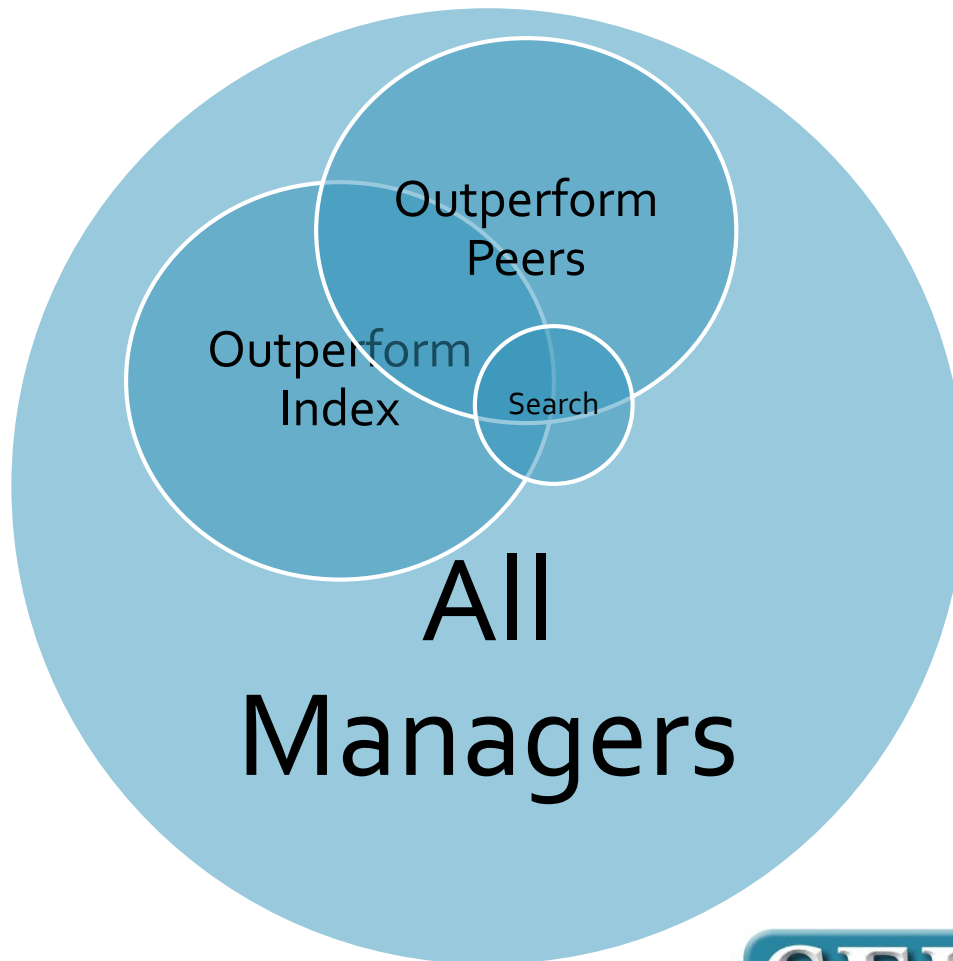
# Are you measuring the right risk?

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- Replicate with known market factors (e.g. Alternative Beta)
  - Size
  - Value
  - Profitability
  - Investment
  - Momentum
  - Low Volatility
  - Quality
  - Etc.

# Luck vs. Skill...can you find it?

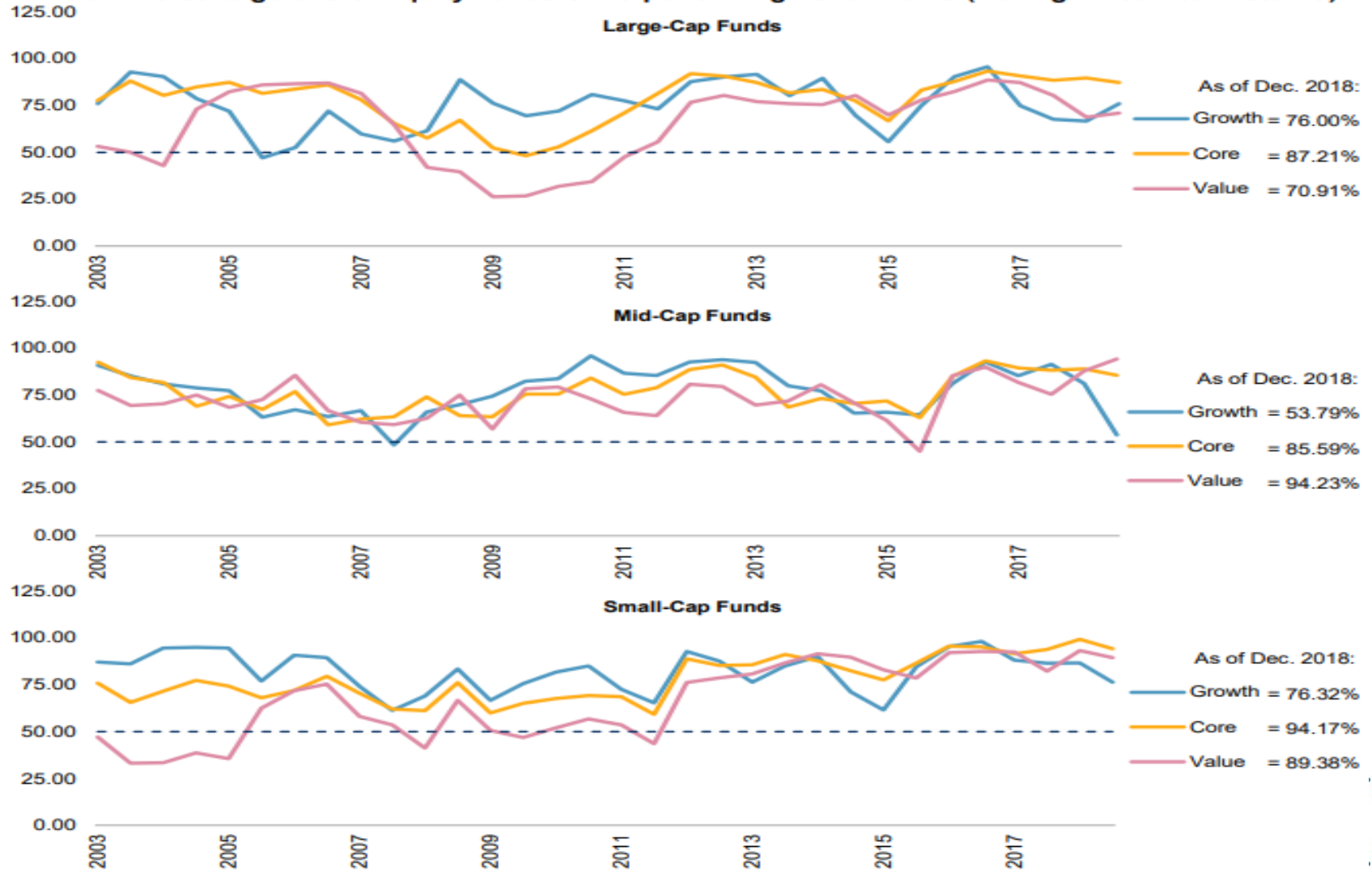
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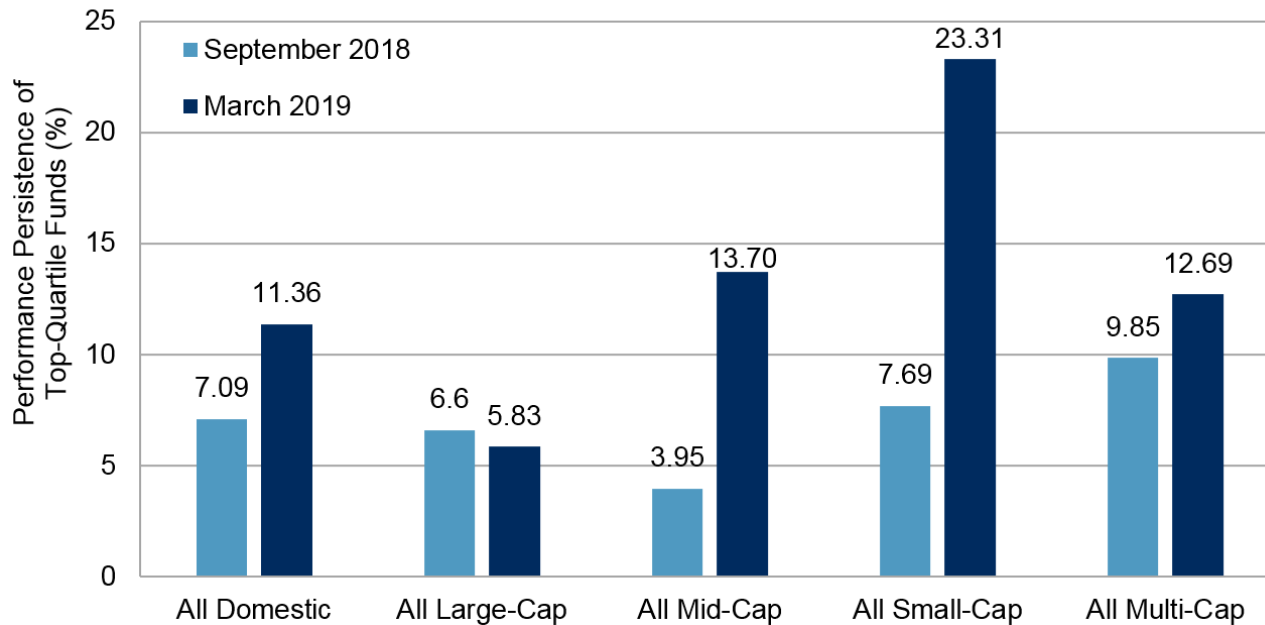
# Luck vs. Skill...can you find it?

**Exhibit 4: Percentage of U.S. Equity Funds Underperforming Benchmarks (Rolling Three-Year Returns)**



# Luck vs. Skill...can you find it?

**Exhibit 1: Performance persistence rose over the three-year period ending March 2019**



**Exhibit 2: Five-Year Transition Matrix – Performance over Two Non-Overlapping Five-Year Periods**

ALL DOMESTIC FUNDS	FUND COUNT AT START (MARCH 2014)	FIVE-YEAR PERCENTAGES AT END					MERGED/LIQUIDATED (%)	STYLE CHANGED (%)
		1ST QUARTILE (%)	2ND QUARTILE (%)	3TH QUARTILE (%)	4TH QUARTILE (%)			
1st Quartile	498	16.06	17.47	22.89	31.53	11.24	0.80	
2nd Quartile	498	21.29	21.49	20.28	22.29	14.26	0.40	
3rd Quartile	497	26.36	22.94	18.51	9.86	20.72	1.61	
4th Quartile	498	15.26	16.87	17.27	15.06	26.51	9.04	

Source: S&P Dow Jones Indices LLC, CRSP. Data as of March 29, 2019. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

# Luck vs. Skill...can you find it?

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- Selecting a manager in March 2016:  
Probability remains top quartile = 11.4%  
X  
Probability outperforms index = 8.5%  
Joint probability to outperform = 1.0%
- Selecting a Large Cap manager in March 2016:  
Probability remains top quartile = 5.8%  
X  
Probability outperforms index = 12.8%  
Joint probability to outperform = 0.7%

# Summary

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- Active management has a cost: more fees, more risk
- The average active manager's returns did not overcome the cost
- There is little persistence among top performing managers
- Due diligence improves the likelihood of selecting a manager that will outperform, but how much of an improvement is unclear